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The *Indian Journal of Economics* was founded by Professor H. Stanley Jevons in 1916 with the three-fold object of providing a medium for the publication of articless on Indian Economics by authors of academic standing or authoritative position ; furnishing a convenient vehicle of publication for original investigations ; and disseminating information about the economic activities of other countries. Its scope has been generally extended since then so as to cover every branch of economic science.

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Professor H. S. JEVONS

The name of Professor H. S. Jevons, M. A., B. Sc., (London), F. G. S., F. S. S., will be remembered in India with great reverence; for Professor Jevons was the founder of the *Indian Journal of Economics*, one of the founders of the Indian Economic Association and the first Editor of the *Journal*.

Professor Jevons was appointed University Professor of Economics in the University of Allahabad in 1914 after a distinguished career as Fulton Professor of Economics and Political Science in the University College of South Wales and Monmouthshire, Cardiff, from 1905 to 1911. He worked as University Professor of Economics, Allahabad University, from 1914 to 1923, and then as University Professor of Economics in the Rangoon University till his retirement in 1930. Son of the great economist and philosopher W. S. Jevons, he took a keen interest in research work. He developed further the famous Sun-Sport theory we owe to his father, and make valuable contributions to rural economics and the problems of exchange. He has been a fellow of the Royal Statistical Society, London, for a number of years, and his deep interest in Statistics led him to collect first-hand information with regard to the condition of the people in the villages of Allahabad District. It was he who brought into prominence the evils of sub-division and fragmentation of holdings in the U. P. Some of his lectures on Economics of Tenancy Legislation and Reform have subsequently been published as a bulletin of the Economics Department, Allahabad University.

Professor Jevons was President of the fifth Indian Economic Conference held at Patna in 1922, and the subject of his address was "Present position of Economic Science and its encouragement in India."

By Courtesy of Prof. C. N. Vakil.]

Professor H. S JEVONS

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POST-WAR IMPLICATIONS OF INDIA'S STERLING CREDITS

By

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India's sterling credits in the form of sterling securities held by the Reserve Bank in the issue department and as liquid balances in the banking department are rapidly approaching Rs. 1,000 crore mark. As practically all the sterling obligations of the Government of India have been paid off by the process of repatriations of such obligations, the accumulations of sterling cannot any longer be slowed down unless the British Government consent to the liquidation of the British commerical assets in India. The exact magnitude of these assets is not known. Estimates vary considerably. In any case all such assets cannot be liquidated, because some of them are parts of the capital assets of companies registered in Great British *e.g.* banks, insurance companies and shipping interests. In such cases the sale of assets and their transfer to Indian ownership may not be practicable. But even if under pressure of circumstances the liquidation of other commercial assets does take place it could not absorb perhaps more than one fifth to a quarter of India's sterling credits. The question of the utilisation of the balance left will still constitute major financial problem of the post-war period.

In his last budget speech the finance member states that the Government of India proposed to utilise a part of the sterling credit in making advance provision for meeting their recurring obligation over a number of years on account of pensions and provident funds. He did not state the amount which he proposed to set apart for this purpose. But he estimated that "these charges in the period that lies ahead will be of the order of from £ 5 to £ 6 million a year." On the basis of this estimate the amount of sterling which it will be necessary to ear-mark for this purpose is not likely to exceed Rs. 200 crores.

It is perhaps futile to except that Government will revise their intention of funding their annual obligation of the future in the manner proposed. It is hard to find any necessity for this step which has certainly no precedent in international financial relations. There is no danger of a transfer problem for the rupee cropping up after the war. It is most absurd that a country with a larger credit balance abroad should hasten to pay her *future* obligation having liquidated her past obligations already instead of acquiring the ownership of productive assets owned within her frontiers by the debtor country, or utilising these credits for her own industrisation. The finance member could not have chosen a worse methed of utilising national assets. But one may hope that the funding of pensions is not typical of future intentions.

Assuming that sterling to the extent of Rs. 200 crores is absorbed by future pensions etc and another 200 crores in realising British commercial investments, tbe balance left is not likely to be less than Rs. 600 crores. Some of it will be required as reserve against currency. It has been shown in this article that Rs. 100 crores for this purpose should be regarded as ample. That leaves a net balance of Rs. 500 crores. If British investments are not realised the balance cannot be less than Rs. 700 crores. If better counsels prevail and the idea of funding the pensions is given up as bad

finance, sterling credits of India would stand at Rs. 900 crores. Whatever the amount left it will be sufficiently large to demand careful thinking, financial wisdom and political integrity of a high order on the part of those invested with the responsibility of utilising it.

Are Sterling Credits War Profits ?

In the utilisation of India's sterling credits the view taken of their nature and origin is bound to play a great part. In certain British financial circles there is a tendency to regard India's earnings of sterling as a war windfall, almost of the nature of war profits. On the other hand in India there is a tendency to gloat over the conversion of the country from a debtor to a creditor and regard our sterling credits as a measure of the country's real capacity to pay for the war. To this view a number of eminent Indian economists have unwittingly subscribed. In a manifesto signed by twenty economists last April, they urged upon the Government of India to finance expenditure of behalf of his Majesty's Government and other Allied Governments by increased taxation and borrowing and not by resort to inflationary finance. Foreign observers are liable to see in the manifesto an admission by the country's leading economists that India is really able to finance the Allied war expenditure by taxation and loans but for political reasons the people will not subscribe to war loans or consent to bear heavier taxation. They are therefore getting what they deserve *i.e.* they are made to bear the burden of such expenditure by inflationary method. But they also earn so much sterling in the bargain. The fact that India has accumulated so much sterling, it is felt, shows that India is not pulling her weight and putting on Britain a burden which she ought to bear. The fact that India has *actually* borne the burden by the crook of inflation suggests that the same burden could have been borne more easily by the hook of taxation and loans. No wonder that the British Government are dissatisfied with the financial settlement and even the finance member

thinks it is generous to India. What the economists' manifesto fails to emphasise are the facts that the burden of even her own defence expenditure is beyond the capacity of India to bear; that before the war Sir Otto Niemeyer and in 1942 the finance member himself stated that there was but little scope for additional taxation in India; that the financing of Allied expenditure even by taxation and loans would be at the expense of denying to the masses of people the bare necessities of life and therefore the greatest care should be exercised in using India as a source of supply for other than her own defence requirements. Instead the manifesto contents itself with mildly emphasising that "the total liabilities undertaken by the Government of India, whether on their own accunt or on account of the British and Allied governments should not exceed what they find possible to raise in pursuance of the policy outlined by us." The intentions of the authors of the manifesto cannot be mistaken in India. Abroad the manifesto is liable to be construed as a protest against inflationary finance rather than against the scale of expenditure as such. In this respect the manifesto has done a disservice to the country.

Fortunately or unfortunately the widespread distress in many parts of India and the general recognition of the causal nexus between it and the scale and manner of Allied war expenditure in India have given a lie to the suspicion that India is not pulling her weight and that her accumulation of sterling credits represents war profits. As a matter of fact, in a properly drawn up balance sheet the advantages of our sterling credits would seem to lie more with Britain than with India. For India they represent excessive sacrifices to the extreme limits of death by starvation, disease and exposure. Their best utilisation after the war, assuming it is undertaken with sagacity and integrity, cannot be regarded as sufficient compensation for the serious injury suffered by the nation. For Britain our sterling credits represent the sparing of heavier sacrifices to the British and Allied people. In

addition to this there is the probability that Britain will repay less real value if sterling depreciates and her transition from war to peace will be greatly facilitated by a large Indian demand for her exports. Only the ungrateful will suggest that our sterling credits represent war profits and therefore their utilisation does not deserve the anxious attention paid to it. It is assuring to learn that the Government of India do not share this view.

The Precondition of the Utilisation of Sterling Credits

Before discussing the question of the utilisation of sterling balances after the war it is necessary to emphasise the need for reviewing the monetary organisation of India. The omission of any reference to this subject from Government's discussion of post-war problems lends a touch of unreality to post-war planning, and in so far as the sterling balances today are performing the function of currency reserves, their uttlisation cannot be properly considered without reference to the currency mechanism of which they form an important part.

The history of Indian currency during the present century shows that irrespective of the requirements of internal economy, it has generated inflationary expansion at one time and deflationary contraction at another. It is now generally recognised that since 1939 the mechanism of the sterling exchange standard has prevented any effective action being taken by the Indian monetary authorities against the development of a serious inflationary situation. The Reserve Bank of India Act so circumscribes the Bank's power of controlling the expansion of currency and keeping it within the bounds of internal requirements that it would be no exaggeration to say that the Bank has felt helpless in combating the present inflation. In the same way before the war and during the years of the world economic depression, the Indian currency mechanism did not permit the pursuit of a policy of expansion in the interests of energising the country's economic

system. It was in fact instrumental in intensifying the deflationary pressure. I fear that as before the war so after it our currency mechanism will become an ally of deflation. To safeguard Indian economy against such a contigency it will be necessary to eradicate from our monetary organisation all those elements which have come in the way of our adjusting an independent monetary policy. These are: 1. The predominance of sterling in our currency reserves. 2. The rigid fixity of the rupee in terms of sterling under all circumstances. 3. Fluctuations in internal currency circulation in response largely to fluctuations in sterling reserves caused by the vagaries of the balance of payments. Post-war reform of the currency system thus involves a radical rearrangement of the relations between the rupee and sterling. If the system is left untouched the utilisation of sterling promises to inflict a deflationary contraction on India irrespective of internal needs.

As a precondition of utilising sterling assets a change in the present status of these assets will be essential. At present they constitute currency reserves. After the war they should cease to enjoy this status (except to the extent that sterling finds a place in a reconstituted currency system) and be regarded as capital assets which in fact they are. Such a change in the status of sterling will alone protect the Indian economy from the adverse repurcussions which the continuation of the present currency mechanism threatens to produce as soon as sterling balances are drawn upon. This is not to say that every contraction of currency is deflationary or that a contraction consequent on a withdrawal of sterling cannot be made good by the Reserve Bank expanding its holdings of rupee securities. But there are two objections to this precedure. One is that it is not desirable that a change in internal circulation should be initiated by a change in sterling. Secondly corrective action by the Reserve Bank was limited in the past by the maximum limit which the Bank Act prescribed for the holding of rupee securities and will be limited

in the future by the minimum proportion which the Act prescribes for gold and sterling securities.

The need for meeting India's sterling obligations promptly and without risk of depreciation has been largely responsible for the predominance of sterling in the Indian currency system and for the official worship of exchange stability at all costs. In view of the almost complete disappearanc of such obligations and the change in India's financial status it may be expected that Government would appreciate both the necessity and the practicability of reforming the currency mechanism. This is not the place to discuss the details of currency reform. But the outstanding features of such reform may be indicated here.

I would strongly advocate the fixing of a maximium limit to the amount of sterling which the Reserve Bank of India can hold in the issue department. Since the establishment of the Bank the maximum amount held by the Bank in the issue department has been Rs. 80·31 crores (May to December 1937). The figure at the outbreak of the war was Rs. 59·50 crores. The holding of sterling in these amounts in pre-war economic conditions was however inadequate. Without the assistance of heavy exports of gold it is certain that the Bank would not have been able to pull on for long with these reserves or maintain the sterling exchange standard. But what was inadequate before the war will not necessarily be so after the war, for the reasons that our sterling obligations have been largely eliminated from our future balance of payments and there is a hope that our post-war import policy will be more discrimnating. For these reasons, I think, a maximum limit of Rs. 100 crores to the holding of sterling securities in the issue department should be considered quite liberal. This implies the end of the partnership between gold and sterling. After ending this anomalous partnership a new partnership should be created between gold and rupee securities subjecting the former to a higher minimum than the present minimum and the latter to a sufficiently high maximum and both together to a minimum proportion of the note

issue. It should be possible to raise the minimum for gold by revaluing the present gold reserve. The present reserve should be capable of being marked up to at least Rs. 100 crores, without running the risk of having to mark it down if the price of gold should fall in the future. It is most unlikely to fall so much as to bring down the value of our gold reserves below Rs. 100 crores. The object of proposing a maximum limit to the holding of rupee securities is obvious. But this maximum should be much above Rs. 50 crores as laid down in the Bank Act. The present repeal of this limit might as well be made permanent. It may not be possible to lay down at present the permanent maximum limit for the holding of rupee securities. But the Reserve Bank should be at liberty during the transitional period of currency reform to substitute rupee securities to the extent that it deems desirable in place of sterling securities as soon as the utilisation of sterling commences. It would not matter if the rupee securities substituted for sterling securities are *ad hoc* securities, but owing to a greatly increased supply of rupee securities consequent on the repatriation of sterling loans and raising of Indian war loans, the Reserve Bank should have no difficulty in keeping a large portfolio of rupee securities which are not *created*.

The new status proposed for rupee securities in the assets of the Reserve Bank promises to secure that freedom for the Bank as Bank of Issue and as Controller of Credit which it has always lacked. Thus if during the first post-war year sterling balances fall by Rs. 100 crores and in the second by Rs. 200 crores the the Bank need not cancel rupee currency against such depletion of sterling which it will be obliged to do if the present currency machanism continues unchanged. Under the changes proposed the Bank would be able to put back into circulation, currency which it receives by sale of sterling, to the extent it deems necessary. The Bank's ability to do so holds for reaching implications for its technique of credit control by open market operations. I

therefore hold that currency reform is an indispensable precondition of effective utilization of sterling balances in particular and successful post-war reconstruction in general.

The Rate and Manner of Utilisation of Sterling Credits.

Given a satisfactory currency mechanism the question of the rate at which and the manner in which sterling credits are utilized will be of considerable significance in determing the advantages derived from their use. I assume that the use of sterling will be subject to control. In determining the rate and manner of utilization the following factors would require constant watching on the part of the authorities responsible for the disposal of sterling credits.

1. India's post-war balance of payments.
2. The pace of post-war industrialisation in India.
3. Government's post-war public work policy.
4. British prices after the war.
5. India's future defence requirements.

1. For many decades before 1931 India enjoyed an active balance of payments and the net import of treasure which had been a feature of Indian economy before 1931, was a result of such balance. The annual balance of trade was sufficiently favourable to meet India's obligations on account of invisible imports and leave a margin for net import of gold. After 1931, however while the balance of trade continued to be favourable in the matter of the balance of payments India had to have a net export of gold as a balancing factor. Our export trade between 1931 and 1939 was thus inconsistent with the import trade and other financial obligations of the country. No control was excercised on imports to eradicate the evil symptoms of economic ill-health which the continued exodus of gold unmistakably indicated. By 1937 it was beginning to be realized that the deterioration in the Indian balance of payments was more than a temporary phenomenon and that something had to be done to arrest it. That year saw the beginning of attempts at repatriating India's sterling debt

with the object of adjusting the country's financial obligations to her balance of trade. Unfortunately nothing was done to tackle the problem on the side of imports. Not much could be done under the circumstances then prevailing to repatriate sterling debt. *By the end of the financial year* **1938-39** **debt** of just over £3 millions only **could be repatriated.**

The war has been instrumental in reducing to almost vanishing point the strain of invisible imports on our future balance of payments. Our post-war exports will therefore enable us to consume larger visible-imports than was the case before the war. Our capacity to buy goods out of current income is thus likely to be greatly increased unless our exports suffer a more serious and permanent decline. On the fair assumption that they do not, the question arises how are we to utilise this increased capacity to buy out of current income and also the capacity to buy represented by sterling balances. Great care will inevitably have to be excercised if these capacities are to be put to best advantage. It will conceded that in no case should sterling balances be drawn upon for financing imports of consumption goods. Nor for purposes of post-war reconstruction should attention be concentrated on the magnitude of our sterling balances only and our income from exports left alone to finance whatever imports may come into the country. Such a policy will most certainly expose domestic industries to severe foreign competition and dislocate the country's internal economy. It will amount to a gross misuse of the India's accumulated purchasing power This is not to advocate measures against the entry of foreign consumption goods. It is an argument in favour of discriminating import policy. Our resevoir of purchasing power represented by sterling balances and our earnings of purchasing power from future exports should be viewed as a single whole, and jointly harnessed to the task of economic reconstruction and progress. The sterling balances will enable us to buy in excess of our exports but they should not be made an excuse for permitting a flood of imports into the country even when they are non-competitive. It will be possible to fritter away earnings

past and future in the purchase of motor cars, whisky, biscuits, high quality textiles etc. It is equally possible too use them in such a manner as will create permanent benefits for posterity. In short our earnings from exports should be the first to be used for financing reconstruction. Only to the extent they fall short of requirements should sterling assets be drawn upon. The temptation to use up these assets may be strong. Failure to resist it holds possibilities of wasting them and causing internal dislocation. It follows that for some years India should be prepared to continue as a creditor country. Under given schemes of reconstruction and industrialisation the rate of exhaustion of sterling assets should be slow if our export trade happens to be flourishing. It is therefore incumbent on the Policy Committee on International Trade and Industry to consider the principles which should govern the utilisation of India's earnings of foreign currencies both present and future.

2. Another factor which should influence the rate of utilisation of sterling is the the pace of post-war industrial progress in India. The growth of new industries takes time. The danger is that the needs of new industries may remain unfulfilled if sterling assests are exhausted in other ways. Their utilisation therefore should keep in view the industrial requirements of the country over a fairly long period. To this end our plans of post-war industrialisation need to be as comprehensive as possible and a proper balance should be maintained between the requirements of the existing industries and those of new industries. If the latter are ignored and sterling assets are used up in the purchase of consumption goods, capital goods for the existing industries including the railways, defence requirements and for public works, the establishment of new industries may have to depend upon foreign loans. That will be the beginning of the reversal of the present financial status of India and the country may find itself again a debtor.

3. Attention is now being paid to a post-war programme of public works. To some extent their

execution will involve the use of sterling assets. In this respect too the need for excercising the greatest caution and discrimination cannot be over-stressed. The period of scarcity is likely to continue for some years after the war and it will therefore be insensible on government's part to compete against industries in their requirements of capital goods. On the other hand the availability of foreign funds by itself should not be the sole incentive to the purchase of capital requirements for purposes of public work. Maintenance of the tempo of economic activity is one of the recognised objectives of public work. Timeliness is therefore the essence of a public work policy. To the extent that public works are directly required for reconstruction purposes they cannot be postponed. But there is much to be said for dividing public works into two classes—one consisting of those which cannot be postponed and the other of those which can be held in reserve. The rate of utilsation of sterling balances will be slow if without handicapping industrial requirements they can be held in reserve for 'reserved' public works. In no case should the latter be hurried through even if they do not encroach on industrial requirements. Haste in this matter will cause a rapid exhaustion of balances and fail to make the most effective use of them.

4. The level of British prices after the war will be a factor which cannot be ignored in determining the pace of utilisation of sterling assets. It would be obviously a blunder to make heavy purchases immediately after the war when prices are likely to stand at a higher level than they would after the initial demand for goods and service for reconstruction and consumption at home and elsewhere has been met. This is not to say that Indian industries' demand for capital goods should be denied satisfaction till normal condition are restored in Great Britain. It would however be essential to subject the satisfaction of this demand to a system of priorities in purchases. This implies a system of rationing of sterling for importing capital goods including Government's own requirements for railways and public works. Such control

of imports can be safely removed as soon as the transition of the British economy from war basis to peace basis is complete. This is perhaps grossly underestimating the difficulties of licensing purchases of capital goods and rationing sterling. In the absence of war emergency the administration of controls is liable to be particularly lax. The best alternative is for Government to take steps to safeguard the value of sterling assets against future depreciation. This is what informed public opinion has been clamouring for without receiving the slightest response from Government. Apart from considerations of political integrity and economic foresight, the Government of India are under a moral obligation to arrive at an understanding with the British Government guaranteeing India's sterling assets against post-war depreciation whatever happens to sterling. Once this is done there will be need to control the purchases of capital goods in the light of what happens to prices in Great Britain. Under such an understanding our purchases will depend upon Britain's capacity to supply and our capacity to absorb.

In fairness to the sacrifices incurred by the Indian people in meeting the demands of Britain and other allied countries in adddition to the cost of their own and joint war measures, their hard-earned assets should be safeguarded against depreciation. There has been many a precedent for such guarantee in international financial relations. In the absence of such guarantee Britain will be forcing the grant of a concealed gift from India. Britain will also be in a strong position to dictate prices because it will not be easy for India to utilise her sterling elsewhere. Any attempt to do so will create a transfer problem for sterling. It will be obviously difficult for India to convert sterling on large scale into dollars, mark or yen. For the most part therefore our purchases will be restricted to British goods.

5. So long as Indian finance and defence remain in non-Indian hands there is the danger that Britain may exhibit undue anxiety for making India strong after the war and insist on equipping

her with a large navy, air force and a highly mechanised army. It is not difficult to imagine how a few hundred crores of sterling balances could be cancelled against bombers and fighters, tanks and trucks and warships. If this is allowed to happen we might as well bid fare well now to our visions of post-war reconstruction and industrialisation. While it cannot be doubted that India's future defence expenditure will be on a permanently higher than the pre-war level unless our anticipations of *Satjug* are so completely realised as to make universal disarmament an accomplished fact, such expenditure should not be allowed to draw upon our sterling balances. It will certainly take some years before the world feels again the itch for armaments. Till that time India's reserves of purchasing power should be devoted to productive purposes which will also be the basis of our future war potential. Having received sterling for starvation in the present, India should resist any pressure to accept armaments for sterling. As there was a fiscal autonomy convention between the Indian and British governments, after the last war the case for a monetary and financial autonomy convention during or soon after the present war is particularly strong.

In view of the considerations set out above it is difficult to appreciate the anxiety of those who feel that India should undertake a "speedy and effective utilisation of her sterling balances."* There can be no *a priori* basis for speedy utilisation. Effective, yes. But why necessarily speedy. There may be danger in speed. It may be at the expense of new industries particularly capital goods industries and at the risk of buying at high prices, executing public work in competition with industrial requirements and going in for non-essential imports or unnecessary armaments.

* V. K. R. V. Rao, *India and International Currency Plans*, p 27.

In his *India's Sterling Balance*, Mr. Birla says that we ought to liquidate our sterling balances 'within a certain period from the termination of the war'. p. 14.

THE FUTURE OF GOLD *VIS-A-VIS* CURRENCY PLANS—I

By

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I

HISTORICAL BACKGROUND

Although the traditional gold standard broke down in 1914, the world was, however, not ready to pension it off at that time. That is why when Britain returned to gold, this was hailed throughout the world as a great step towards stabilisation. But the conditions under which gold standard was restored differed greatly from one country to another. Some countries, such as Britain, had gone back, to the accompaniment of a large measure of deflation, to the prewar parity of their national money, while others had restored gold standard only by means of a large measure of currency devaluation, and yet others—particularly Germany—had been compelled to introduce an entirely new currency unit, based on gold, and virtually to wipe out the inflated money of the years immediately following the war. France stabilised her currency at a low internal value of the franc. Thus it is evident that the process of restoration had been almost everywhere painful, and, in many countries, it had only been carried through at the cost of considerable temporary unemployment and economic dislocation. The process continued till 1929, and, on the eve of the crisis, the financial circles of the world were congratulating themselves that the long period of currency disturbance was, after all, over. With the exception of China, all the countries had come back to gold standard and those countries which had not yet finished the process of currency stabilisation, were expected to do so in the near future. It was hoped that the world's troubles were almost over and that it did not matter by what method and at what level the currencies had been stabilised, now that stabilisation could be regarded as an accomplished fact.

* * * *

For some time past, the future of *gold* is coming under discussion. So far as the war economy is concerned the *role* of gold as a means of payment for the procurement of war-materials from the neutral countries is obvious enough. But this importance of gold in war economy was considerably diminished from the moment the Lend-Lease Act was passed and it was altogether extinguished with the entry of the U. S. A. into the war.

But further considerations remain. Although gold has been relegated to secondary position, the price of gold has remained sufficiently high and at times reached abnormal levels. So it has been suggested that the price of gold be lowered in order to discourage gold production. A good case has been made for restricting out-put and this can be most effectively secured by reducing the official dollar price as arbitrarily as it was raised a decade ago.

Nay, the problem of the high price of gold raised much controversy even before the outbreak of hostilities. For the increase in gold production, there has been a very large increase in the gold reverse of U. S. A. The following tables from Money and Banking, 1940-42 (L. O. N.), explain the situation :

TABLE I

VALUE OF WORLD GOLD PRODUCTION

[IN MILLIONS OF U. S. NEW DOLLARS]

Continents	1935	1936	1937	1938	1939	1940	1941
1. Africa ...	441	468	489	511	543	593	606
2. North America ...	229	264	288	315	343	356	353
3. Central and South America.	73	77	84	93	96	105	103
4. Asia ...	75	90	101	117	124	...	...
5. Oceania ...	45	54	63	73	76	77	73
6. Europe ...	19	19	19	21	21	19	...
Total ...	882	972	1,044	1,130	1,203	1,280	1,285

TABLE II

RECORDED CENTRAL GOLD RESERVES

[*In Millions of U. S.* (*new*) *Dollars.*]

Continents	End of 1938	1939		1940		1941		1942
		June.	Dec.	June.	Dec.	June.	Dec.	March
1. Africa ...	289	288	318	370	435	495	434	465
2. North America ...	14,704	16,323	17,859	19,971	22,002	22,630	22,742	22,692
3. Central and South America.	708	704	753	695	685	730	720	701
4. Asia ...	564	575	608	617	663	696	758	739
5. Oceania ...	25	25	25	25	25	25	25	25
6. Europe ...	8,859	7,027	5,890	5,010	4,963	4,999	5,169	5,368
Total ...	25,149	24,942	25,453	26,688	28,773	29,575	29,848	29,990

It is clear from above Tables that the total production of gold was increasing year by year and the inflow of gold into U. S. A. was steadily upwards up to 1941. Another important thing to note is that since 1939, Europe dishoarded gold and this went to the Kentucky Vaults. The official gold policy of the U. S. A. during this period, as declared by Mr. Morgenthau, the Secretary of the American Treasury, was that the Treasury would not stop buying gold, because such a policy would bring about confusion and would not be in the interests of U. S. A. [Be it noted that the decline of gold inflow into the U. S. A. since the beginning of 1941 was not due to any change in the gold policy of the American Treasury, but was due to the fact that there was less scope for further gold imports into the U. S. A. in excess of current world production, the reasons being that the British reserve was nearly exhausted, that most European countries were subjected to the British blockade and that the United States Treasury adopted freezing regulations. Cf. *World Economic Survey, 1939-41* (L. O. N.) P. 142].

This one-sided flow of gold into the U. S. A. at a high price caused much disturbance among one group of American economists. Thus Graham and

Whittlesey, writing in the *Foreign Affairs* (vol. XVII, P. 597) pointed out that " at present there is a grave disequilibrium between the low cost of producing gold and the high price at which it sells. Existing policies perpetuate this condition and the U. S. A. to foot the bill. The obvious means of reaching a solution are, for one reason or another, objectionable. A possible compromise is some device that will result in a fall in the price of gold abroad—thus checking production and discouraging the flow of gold to this country—and will at the same time maintain its price within the U. S. and permit us to preserve the fiction that our gold is worth what it purports to be. Such a two-price system for gold could be created without serious technical difficulty. It would simply call for a sizable import duty on gold. This might be on a sliding scale and accompanied by a corresponding export subsidy to facilitate an efflux of the metal without loss to foreign buyers."

The case for lowering the price of gold was once more put forward since the commencement of hostilities in order to depress the production of gold. But the suggestion has not been adopted on the grounds, though vague, that such measure would " disturb existing monetary arrangements," " impair monetary confidence ", and " upset the financial stability of certain gold-producing countries."

But, I think, the predominance of considerations other than economic has been the root cause for such a decision. In these circumstances if gold production during war years is at all reduced, it will be due to the forced mobilization of men for military services, increased costs of production and the difficulty of obtaining machinery and other requisite materials, rather than to the economic considerations of depressed prices.

II
PREVALENCE OF CONSERVATISM AND DIFFICULTIES IN THE WAY

It is on the role of gold in the post-war world rather than in war economy that greatest controversies and sharpest differences of opinions occur.

For some time past expert minds of the world are engaged on the task of shaping a design of post-war monetary system which will be able to smooth out all the disturbances with which we have been confronted since the first Great War and to revive the free flow of international trade and the consquent improvement in the standard of life of the participating countries. A lofty ideology indeed ! Whatever plan may ultimately be put into operation, the Economist pointed out earlier that it can involve no return to monetary conceptions of 1925. Gold standard of the textbook variety died in 1914. Its painful and chequered resurrection between 1925-31 was perhaps part of the price which had to be paid for the understanding of economic realities.

The understanding of economic reality consists in the fact that since the initiation of planned economy and managed currency, the dominance of finance over economics has been over-thrown. The world is showing an unmistakable tendency to argue that if a thing is physically possible, whether it be fighting a war or removing unemployment, it must not be stopped by considerations of " sound finance " alone. " Whether the world will find more happiness than grief in this new order of ideas must be awaited with some scepticism ; but that this is the trend of events is unmistakable. There is no place in such a system for the categorical imperative of gold standard."

Indeed, the German official policy towards gold since 1933 has been a great lesson to the monetary world. Even before the war started, Herr von Ribbentrop said on one occasion that Germany has proved that it was possible for an economy consistently directed towards certain ends, and supported by consistent will of a united nation, to exist without gold. Dr. Funk, President of the Reichsbank, also propounded a similar view when he said that the Central Bank regulated by the "Fuhrer Prinzip" hardly required gold as an arbiter of credit policy. What was true of German economy of war-preparedness is no less true of German war economy. At the commencement of the war, Germany, in contrast to U. K., lacked the

means for any comprehensive policy of "external war finance." But her military campaigns, particularly those of the spring of 1940, put her in a position to acquire goods and services from other countries. The financial forms in which she obtained them were (*a*) issues of new currency, known, as Richskreditkassenscheine, (*b*) tributes for occupation costs and (*c*) payments through clearing accounts.

These are sound lessons and should not be passed over in any consideration of future policy. If the dominance of finance over economics is once over, let it not be revived.

There is another lesson to be considered seriously. Since the last depression, we are familar with "easy money" policy pursued in several countries and it is a peculiar feature of the present war economy that "easy money" conditions prevail almost in all countries. [*Cf. Money and Banking*, 1940-42 (L. O. N.)]. And authoritative opinions in both England and Germany have asserted on more than one occassion that the official policy will be the continuance of "easy money" even when the war is over. On theoretical considerations also it is no longer held that an "easy money" policy will exert a depresing influence on saving and will thereby bad to a disequilibrium between saving and investment.

Whatever that may be, the continuance of "easy money" is not only a war-time requirement but is also necessary for postwar reconstruction and requipment. This being so it is hardly conceivable that the gold standard at any parity could be combined with a thoroughgoing "cheap money" policy. Since the defence of the reserve requires high rate of interest, at least at times, it can hardly be combined with a 2 p.c. Bank Rate. It follows therefore that the benefits that have been derived from cheap money must be counted among the advantages of leaving gold.

Although there is a clear case for leaving gold to take account of itself, its fate is not going to be decided by economic considerations, pure and

simple, for the decision to use or abandon gold in post-war monetary mechanism is one that will not be taken without reference to the immense vested interests affected. These vested interests are, as the Economist defines, the U. S. A. holding four-fifths of the world's stock of gold and the British Empire controlling three-fifths of its current production. It would thus be strange if gold were to find no place in post-war currency system.

Indeed, one such opinion is already raising its head. It is argued that although the future of gold as a circulating money within national border or as an international standard of value is doomed, there may still be use of gold as an international precious substance. Thus in the immediate postwar period it seems almost certain that some measure of exchange control will be called for and the operation of this control will make use of the technique of exchange clearing in which the wartime operations of various currency blocks have provided much experience and led to many reflnements. Whether the ultimate clearing of international payments is effected through a free market or through reciprocal transactions of these or more currency blocs, some international standard of value and means of payment is essential. The national currency units must be expressed in terms of some uniform standard. That standard must in turn be related to the means chosen to pay uncleared balances of international indebtedness : and strong arguments support the claim of gold to fulfil these functions. Gold would effectively ensure, it is held, the "voluntary discipline in the monetary policy of the various countries."

But here a question needs be asked. Our experience in the Thirties shows that under the then conditions of erratic movement of short term funds, insufficiency of liquid reserves and the prevalance of unemployment in most countries, a policy of national mover became inevitable in every country. Thus we had Roosevelt's New Deal, the Blum experiment in France, Nazi Manning in Germany under Hitler and Bruening, and more or less similar expriments in the leading countries of the East and the West. Now, the question is: Will history

repeat itself? and if it does, can any amount of international monetary surgery heal the national economic wounds? It is easy to argue that the "National Systems" of the thirties were unwelcome because they aimed at increasing home employment at the cost of other countries, because they led to the imposition of restrictions on the free flow of international trade and because they encouraged competitive exchange depreciation with a view to established export advantages and import obstacles at the expense of the rest of the world. But will the international monetary authority, that may be established after the war, ensure each individual country against the reappearance of those conditions that led to the emergence of national plans? Will it be in a position to provide the requisite liquid resources to those countries which may require them? Besides, will it be in a position to prevent the appearance of conditions that made them liquid? What steps will it take to control the movement of "hot money" from one national border to another? Besides, different countries are in different stages of development. Not only that, the war has even changed the relations between them. The debtors of yesterday have become creditors of tomorrow, and *vice versa*. Some countries have developed their agricultural, industrial and commercial resources, while others have exhausted them. Now, is the international monetary authority in a position to serve all these masters equally? Surely not.

If international monetary authority is not in a position to solve all or many of these difficulties, if it is unable to secure national equilibrium of coats and prices, of what use will it prove to be? Keynes (*E. J.* June-Sept. 43) admits that "in the field of price stabilisation, international currency projects have only a limited objective. They do not aim at stable prices as such. For international prices which are stable in terms of Unitas or Bancor cannot be translated into stable price-levels ......And failing this, there is not much point in an international price level providing stability in terms of an international unit which is not reflected in a corresponding stability of the actual price-levels of member countries'.

Then what is the objective? According to Keynes, the primary aim of an international currency scheme should be to prevent those evils which result from a chronic shortage of international money due to the draining of gold into creditor countries. But this is not enough. The more fundamental thing is to prevent the cause of this chronic shortage itself. If without removing the cause of this shortage, the international authority simply adds palliatives, in the form of creating international money and advancing it to the deficit countries, will it not complicate the problem of these countries in international monetary relations? The internal disequilibria of each of the several countries are not easily neglected in an international stream with the consequence that currency warfare becomes inevitable for the preservation of internal equilibria. It is a poor show to be blind to realities and to accuse the situation as one lacking international financial morality.*

*To be continued.

SOME AMBIGUITIES IN THE BOMBAY PLAN

By

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……it follows, therefore, that the question to plan or not to plan, so frequently posed nowadays, is essentially a red herring. It has not been seriously suggested that there should be no plan, no order in society. The issue is not between *a* plan and *no* plan, it is between different kinds of plan."

Lionel Robbins

The Bombay plan should be considered to be a hypothetical plan, being based on the postulate of a national government. Whether such a government would come at all and if it does, how far it would be truly national is a question to which there can be only subjective answers at present. Nevertheless, the publication of the plan is an event of outstanding importance in India's economic history. It is true, the most important political parties and leaders in the country have yet to express their views on it. It is even true that it has received most enthusiastic and unquestioning support only from sections of the press known to be inclined to support the interests of big bussiness. And, the reception accorded by the well-informed and thinking sections of the population has been of a mixed character. But it is also true that the plan had been drafted by men who enjoy an established reputation for practicality and who are, no doubt, determined to use their experience, wealth and sagacity and the direct and indirect means at their command for shaping public opinion in support of the plan. It is only natural that it should have been described in some sections as a blue-print for fascism while it is hailed in others as the only remedy for India's economic ills. Perhaps, it is neither. It is fairly well-meaning plan for economic development prepared by a community of men, whose patriotism is beyond doubt, but whose capacity for economic planning is limited by their being accustommed to belittle the

divergence that exists between different economic interests in a competitive society ; and, who are generally content to identify industrial with social progress. Owing to this limitation, perhaps, the plan seems to suffer from an underemphasis on certain matters which economists all the world over would regard as vital to any scheme of economic planning in an accepted sense of the term. The rectification of this drawback seems to be a necessary condition for a wider acceptance of the plan.

At first sight, it looks too much like a plan for ends rather than means—means which are necessary for achieving ends, on which there may be more or less general agreement. It lays down targets for production in industry, agriculture and transport, such as would bring about a general improvement in the *per capita* income and for certain types of social planning in the sphere of health and education. There may be differences of opinion regarding details in these matters ; but on most of the points it may be assumed that we all agree. We all want a higher *per capita* income, more industry, more agriculture, certainly better health and education. We might, of course, argue whether the increase to be planned for agriculture should be 130 % or 500 % or something else. But generally we do not question the need for organizing rapidly India's resources for greater wealth production. To a certain extent the question of ends is relevant to economic discussion in the sense that the ends to be achieved are limited by the available means. But, in the main, economic planning implies, and our willingness to support or oppose a particular plan would be decided by the means proposed in that plan. In this sense, there can be no doubt that Ecconomics, even more than the other social sciences, is an enquiry into the question of means.*

*Whether or not we agree with Dr. Hayek on questions of planning generally, the following contention of his seems to contain a great deal of truth : "On the validity of the ultimate ends science has nothing to say. They may be accepted or rejected, but they cannot be proved or discovered. All that we can rationally argue about is whether and to what extent given measures will lead to the desired results." Hayek: *Collectivist Economic Planning:* p. 16.

The question of questions is : what are the means for achieving these ends ? It is very necessary to hear answers to this question before we could give our assent to the plan because every thing depends on the way in which this wealth is to be produced and how, when produced, it is to be distributed and consumed. The Bombay plan answers this curiosity very imperfectly. It has given us a fairly admirable plan about the financial aspect ; but in regard to every other matter its silence is unsatisfactory. What should be, for instance, the nature and functions of the State working out a plan which involves the most drastic control of every aspect of our lives—sometimes not merely the economic ? Who should be in control of such an all powerful State ? What are to be, again, the means by which a certain minimum income would be assured to every individual ? Are we going to have a minimum poverty line and a system of wealth distribution which would approximate an individual's earnings with the utility of his function in society ? What is to be the kind of organisation on which the productive units are to be organised ? What kind of monetary policy would this state pursue, say in regard to raising the necessary capital for the plan ? What type of policy will they adopt on the question of wages and, more particularly, of wages as against interest rates ? Consideration of the problems underlying these and other questions is really what constitutes the essence of economic planning. The Bombay plan has not even touched on most of these questions. It is true that the promise has been held up to bring out shortly another plan discussing questions of distribution, etc. But the planners admit that as it stands "it contains no reference to such *essential* matters as the organisation, methods and technique required for carrying out a plan". They also state that "we have thought it desirable to publish in advance our views regarding *some of the more fundamental aspects of planning* so as to stimulate discussion and criticism". (Italics mine). In other words, the planners consider the question of means essential but they believe that laying down the targets of production represents the more funda-

mental aspects of planning. To an economist this would seem to be a gratuitous assumption, which could be accepted only by a community of factory owners and wholesale merchants. To numerous other members of the community like the fixed salary earners, the wage earners, certain sections of the rentiers, the land-less agriculturists and to the vast body of consumers in general questions of distribution and the means proposed for a given type of economic plan are at least as important as production targets. It is no use hanging a bunch of carrots before the hungry demos and asking him to accept everything else as a matter of faith in the wisdom of the planners.

For, let there be no doubt that economic planning is needed for tackling the problems of production *as well as* distribution. It may be true of India that questions of production seem to be of great importance because, unlike in the West, the resources of the country are not yet well organised for wealth production. But it is not on that account possible to conclude that it would be easy for us to take up the planning of production first and *then* take up the secondary (?) questions of distribution*. In real life—these problems are one and they should be so in any scheme of rational planning designed to replace (perfect or imperfect) competitive chaos by orderly development such as would temper progress with justice. As Lord Keynes has pointed out "the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes". The Bomaby plan does something for the question of full employment. But since yet we know nothing about its solution to the other and more important problem of arbitrary and inequitable distribution of wealth we can, indeed,

*Some of the great thinkers felt it necessary to give priority to problems of distribution. *e. g.* Ricardo writing to Malthus said "Political Economy you think is an enquiry into the nature and causes of wealth; I think, it should rather be called an enquiry into the laws which determine the division of the produce of industry among the classes which concur in its formation".—Ricardo : *Letters to Malthus.*

give it no support because in its present form it is not a complete economic plan at all.

But the still more important point of criticism would be not that a distribution plan should be considered simultaneously with a plan for production; but that without the fullest consideration of such a plan we cannot even say whether the proposed targets of production would even be achieved. Consider, for instance, the proposed solutions for agriculture. There is to be an increase in the volume of production by about 130% with a system of crop planning designed to bring about an increase in food crops with a corresponding reduction of the area under commercial crops. The holdings are to be consolidated through co-operative farming introduced, if necessary, through compulsion. Rural indebtedness should be liquidated through co-operative societies provided with long-term finance. There should be measures for improving the yield from agriculture such as irrigation, introduction of better farming methods, etc.

In itself, this is not a bad production plan. The criticism that the target fixed for agriculture is too small is perhaps exaggerated because this criticism seems to overlook the point that our main concern is to reduce dependence on agriculture. One might doubt the practicability of the kind of measures proposed for the solution of the rural debt problem. But taking the plan as a whole it is legitimate to ask whether the proposed targets of production could be achieved without attempting simultaneously solutions for important agrarian problems like those of tenancy, low wages due to imperfect competition, the uneconomic burden of land revenue, the problem of usurious rates of interest, the problem of exploitation through bad marketing methods etc. To a certain extent the shift of population from agriculture to industry would itself relieve the pressure of some of these problems. But it is not likely that they will disappear altogether because these are, to a very large degree, problems of imperfect competition and require stringent measures of State planning for their elimination. Nor is the question of land revenue unimportant as a factor in determining the

productivity in agriculture. It represents the share of the state from agriculture and its unprogressive character, its lack of uniformity and its arbitrary assessment have an adverse influence on its productive efficiency. In general the attitude of the agriculturist, which is so important a factor in production, is shaped largely by the prevailing system of distribution of the wealth from agriculture into rent, interest, revenue and wages. In fact, it would be no exaggeration to say that the rehabilitation of our agriculture would be rendered impracticable until attention is given to these problems in the first instance.

The proposals for industrial development offered in the Bombay plan represent the soundest part of the plan, though to the votaries of imperial partnership ideology they may seem too narrowly nationalistic. These latter may be expected to press for a plan of development based on a wider measure of exchange with greater emphasis placed on the development of agriculture and of consumption goods in industry. What the result of this conflict would be, the future alone can reveal. We can only ask questions. Would these proposals aggravate the suspicions of British business interests and interefere with the nature of self-goverment to be offered to India ? Would it be worth while, economically, to plan for the degree of self-sufficiency contemplated in the plan even if the post-war world is going to be less war-ridden ? Would it be possible for us to achieve these targets of production consistently with the aspirations of Britain in respect of her debt to us and America's wistful ambitions for oriental markets ? Here economics and politics get dangerously mixed up and he would be a bold man who could claim to know the answer with any tolerable accuracy.

Questions of trade are closely connected with those of industry. The Bombay planners propose to direct agricultural production largely to meet internal demand; as a result they hope to reduce exports. Following the development of consumption goods industries within the country the imports also would come down. As a result the favourable balance of trade would be reduced, but the repatria-

tion of the sterling debt will make up the deficit and the normal rate of favourable balance of Rs. 40 crores per annum could still be maintained.

This conclusion seems to rest on pretty dubious grounds. We cannot be too sure yet of hatching our sterling eggs. Nor do we feel certain that the expansion of planning within the country would be followed by a reduction in the volume of our foreign trade. As the *Eastern Economist* rightly opines "a rapid increase in the national income of vast undeveloped backward countries like India cannot fail to stimulate world trade... . When India herself become industrialized, world trade will grow, not shrink as a result."* Perhaps it is to be presumed that in such a process India's share too will move in the same direction. Moreover, this proposal like the one for the development of industry is likely to be the areas of conflict between imperial and national interest and its practicability is intimately bound with the nature of the government to be. Further, the real question concerning trade policy have neither been raised not answered in the Bombay plan. To achieve in the realm of trade all that is suggested in the plan, it would be necessary to bring in very extensive trades controls. Possibly, monopolistic corporations for handing export and import trade and for deciding priorities both as between different lines of trade and also between different foreign markets will have to be set up. In such an event, the question will naturally arise as to what should be the criteria for such discrimination ? Also, how should such corporations be financed and managed ? It is all too easy to lay down the broad aims of policy but in this case again we might notice how important is the question of means, for without a full discussion of these issues it would be almost impossible even to say whether the particular end of policy are themselves practicable or not.

In regard to questions of finance the Bombay plan has produced some hard and orignial thinking. The accuracy of some of the estimates made by the planners may be doubted but that is only a matter of detail. The view of the planners that

**The Eastern Economist*, May 12, 1944.

finance should be merely the instrument of a country's economy finds more or less universal acceptance.* Even as regards the proposal for inflation finance, though a reckless handling of this instrument may be subject to grave dangers, it would be necessary, if planning on the proposed scale is to be undertaken.

But good as it is, even this aspect of the plan is not free from ambiguities. The first difficulty is in regard to the technique of raising the loans or taxes in the required amounts. Here, more than anywhere else, the quality of the proposals will have to be judged entirely with reference to the proposed means. A particular loan will have to be deemed good not so much with reference to the ends for which it is raised but with reference to the cost of raising it and the way in which the burden is distributed. Also, supposing at any time that capital is not available at the rates offered, either other means like propaganda have to be used or failing that a certain degree of coercive power will have to be resorted to by the planners. In such a case what should be the limit to the use of such coercive powers ?†

*Referring to this question *The Economist* (London) wrote in its issue of December 19, 1942, as follows : "The discovery has been made . . . that the role of finance is merely to make certain by its influence on the national income between different claimants, that financial considerations are never an obstacle to programmes which are physically possible . . . The way is open for the use of financial means to assist in the task of securing the most productive use of the nation's resources. This is the lesson of war economics and not any demonstration that banking is an obstructive monopoly maintained by vested interests."

†In some of its articles discussing these questions the *Eastern Economist* often institutes comparisons between the Russian financial technique and those of the Bombay plan. Such a comparison seems to be impossible to make for the simple reason that the whole basis of the Russian economy will have to be reproduced here if similar adjustments of income, savings, investments, etc. are to *succeed.* In an economy in which the bases of private enterprise and profit are not to be done away with such assumptions appear very unrealistic. It is only under a dictatorship that wholesale control over these financial aspects would be rendered possible, whether that is going to be a dictatorship after the Russian model or the German. In that case, it would be a natural corollary to discuss as to which variety of dictatorship should we choose for India ;

The other trouble some question about this financial problem is in regard to the control of inflation. Under inflation the distribution of incomes will be grossly distorted and a rigourous control of all aspects of economic activity would be necessary if hardships and injustice are to be avoided. This much is conceded by the Bombay plan itself. It is said there that "during this period, in order to prevent the inequitable distribution of the burden between different classes which this method of financing will involve, practically every aspect of economic life will have to be so rigorously controlled by government that individual liberty and freedom of enterprise will suffer a temporary eclipse."* Perhaps, collapse would be better word. The point, be it noted, which emerges from this is that financing the plan carries with it the implication of a fair degree of economic dictatorship by government—let it be hoped temporarily. But then it would be relevant to ask about who would constitute this government? The quality of the controls imposed might differ widely under different forms of government. It would be no answer to this to say that it would be a 'national' government. As far a as we know, there can never be anything like a 'national' government in any perfect sense. Most governments would tend to be dominated either by big business, or labour or what are vaguely called the middle classes or some haphazard combination of these various groups. And the nature of controls imposed would largely depend upon the nature of this composition. It is true in England there is a government which goes by the name of a 'national' government but which is more or less carrying out the economic policy of the predominate group, that of the conservatives. And what is the keynote of this policy? Here is what Mr. Geoffry Crowther has to say about it :

> "The Conservative party, then, believes in intervention for the protection of the interests of the businessman and his profits. Let it be said atonce that there is nothing unworthy in such an attitude. Every class of society sincerely believes that it deserves particular protection because it is a sort

**A Plan of Economic Deveolpment*, p. 48.

> of trustee for society in the large. This is particularly so with the bussinessman, and he can make out a strong case for his claim . . . . . . Truly, under conservative rule the British community is more planned against than planning."*

In our own country with the growth of capitalistic enterprises this upper class conservatism of the economic type is growing and behind the name of 'national' government is hidden a dim fancy for a government run by this class. They sincerely believe that they are trustees for society in the large. There can be nothing unworthy in such a belief. But it would be difficult for the rest of the community to merely accept it on faith. It may be possible to agree broadly to the principle that finance should be "camp follower to the country's economy" as the Bombay plan puts it; but it is also relevant, perhaps, to ask, whose camp? To that question unfortunately there is no explicit answer except in vaguely worded statements here and there that the consumers' interest would be protected and that due care would be taken to develop the consumer's goods industries in due proportion and so on. In view of this it is impossible to say whether the Bombay plan is good or otherwise, because it does not define clearly enough the broad lines of financial policy which are to form the basis of this economic planning. In connection with such a policy three main questions might be asked: (*a*) What is to be the nature of social policy underlying such a plan *i. e.* for whose interests in the main would such a plan be conceived and directed? (*b*) What would be the governing principles for wealth distribution under such a scheme? (*c*) What would be the criteria for distinguishing planning which might be considered wholesome from planning which might be directed to the advantage of sectional interests? Unless clear and unambiguous answers to these questions are forthcoming it would be impossible to assess the value of the Bombay plan.

As regards social planning the only mention made relates to the health and education programmes. These, no doubt, would add to the real incomes of the poor and to that extent might be

*Geoffry Crowther: *Economics for Democrats*, p. 61-71.

regarded as means for reducing economic inequality. It should also be conceded that in our country, in the present circumstances, any large scale plans for social security on the model of the Beveridge plan would be unthinkable at this stage. And if the main object of the Bomaby plan, the doubling of the *per capita* income, were achieved a fair amount of improvement in the general standard of living would follow.

But it must be emphasised that a reference to *per capita* incomes in itself has no social significance, unless it is implied that every one in the community gets a certain minimum. Even if our total national income goes up to a figure which would yield a given *per capita* (average) income, it does not mean that some classes in the community may not get proportionately more and others less than formerly. It is perfectly possible that for some people incomes may be rising and for *some* they may remain either stationary or even contract. It is therefore essential not only to plan for a rise in the *per capita* income but also for the most rational distribution of it. Indeed, it is now recognised beyond doubt that even a smaller volume of national dividend may be productive of better welfare when properly distributed than a larger volume (*i. e.* larger *per capita* income) too unevenly distributed. For this reason a *per capita* income criterion of economic planning is only second best, the best being that which seeks the maximsation of economic welfare. It may be replied that the Bombay plan seeks full employment as an objective; and if it suceeds in achieving this it would go a long way towards ensuring the maximum economic welfare possible in the existing circumstances. Would this not satisfy ?

Not necessarily. Full employment is only one of the essential elements of economic planning. Even under a scheme of full employment it would be necessary to provide for sickness, accident, temporary unemployment and old age. There may also be need for the provision of minimum wages in some types of industries. At present it may not be possible to say precisely how much of this social planning would be practicable; and it is true that

any hasty imitation of British or continental models would be fatuous. The Beveridge proposals are the culmination of about half a century's experience in social insurance. But granting all this, it should be still urged that in a plan extending over a period of about 15 years it should not be impossible to provide for all these—if not in the first five year plan itself at least in the course of the second and the third five year plans. It may not be possible to make calculated commitments at this stage; but it should not be difficult to lay down the principles of policy as has been done in respect of other matters. *If the present economy could not swallow social insurance on an adequate scale, it is likely*—and for the most excellent reasons—that socialism would swallow the present economy.

Besides social insurance there are other problems of distribution. In the present system there are two main defects giving rise to inequity *viz.* the widespread character of imperfect competition and the persistence of interest rates above the level of the marginal efficiency of capital. In connection with the problem of imperfect competition leading to exploitation Mrs. Robinson says:

" The prevalence of imperfect competition in the real world sets up a tendency to exploitation and this tendency might be greatly strengthened by the formation of large combines absorbing a large number of formerly competing firms.... The degree of exploitation due to imperfect competition must be great. Even with an elasticity of demand as great as two, the factors receive only half the perfectly competitive real wags."*

In India the economic factors tending to create imperfect competition are aggravated by the social and linguistic difficulties. There is also the steady growth of combinations and monopolies and under a scheme of planning the degree of centralisation in business is very likely to grow. All this would only aggravate the condition of wealth distribution unless special measures are adopted

*Mrs. Robinson, *Economics of Imperfeci Competition*, p. 313. She defines exploitation as a state of affairs in which the wages of a factor is less than the value of its marginal physical product.

and it is probable that without them the so-called economic progress of the country would be laid on foundations of exploitation.

In regard to interest also it is now recognised that in the normal way it involves a certain amount of exploitation of the rest of the community by the owners of capital. And it is not Karl Marx but Lord Keynes who wrote some time ago that :

> " Interest today rewards no genuine sacrifice any more than does the rent of land. The owner of capital can obtain interest because capital is scarce just as the the owner of land can obtain rent. But whilst there may be intrinsic reasons for the scarcity of land, there are no intrinsic reasons for the scarcity of capital......... I see , therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work ",*

The point to be noted here is that in the reward offered to the owners of capital in the present society there is an element of rent—a reward that has no relation to the value of service rendered by the owner of capital. Thus, in our society there is a strong tendency for these owners of capital to obtain rewards in excess of their deserts and for labour to get less than its due. If planning is required, it is largely to eliminate these inherent defects in the system and unless specific provision against these injustices is incorporated planning so-called would he worthless. Planning should provide for what Lord Keynes calls the euthanasis of these exploitation aspects. It is no use coddling with the present system for any other purpose. It is pity that the authors of the Bombay plan consider these matters as of secondary importance and production targets as fundamental.

To achieve these ends of a rational system of wealth distribution at least three things are necessary—first, a rate of interest reduced by planning to that relatively to the schedule of marginal efficiency of capital at which there is full employment ; secondly, a scheme of direct taxation such as would effect the necessary transfer of wealth from the rich to the poor in recognized ways which would allow for the " intelligence and determina-

*Keynes, *General Theory*, p. 376-7.

tion and executive skill of the financier, the entrepreneur *et hoc genus ome*" to be harnessed to the service of the community on reasonable terms of reward; and thirdly, a system of wage planning which would rectify the tendency to exploitation. Any proposed plan could be considered sound or otherwise only in proportion to its contribution towards such a policy. How far does the Bombay plan stand this test?

As regards monetary policy governing the rates of interest the Bombay plan is curiously silent. "The precise form in which the capital may be raised" it is proclaimed there, "whether by the state in the shape of taxation, or government borrowings or by private voluntary investment, is a question which can only be considered, when the plan is ready for execution, in the light of conditions then prevailing."* May be true. But unless the precise means and the kind of policy in regard to interest rates that would be pursued is known it is difficult to pronounce judgement on the economic soundness or otherwise of the plan. Here again the real question is one of means. In the absence of a well-defined policy in this respect it is only tantamount to asking the public to sign a blank cheque in favour of a particular group of planners without asking questions.

As regards taxation matters the position in this country has remained unsatisfactory in the extreme. It is even today shamefully regressive and combined with a topheavy expenditure tends to be devoid of all that is accepted as wisdom in the realm of public finance in the progressive countries. But judging from the amount of squealing that one hears even against the moderate measures of progressive taxation now prevailing, makes one sceptical of the extent to which the introduction of steeper income and supertaxes, death duties and inheritance taxes would be welcomed by the community of men who have sponsored the Bombay plan. One still hears in this country the nauseating argument that taxation of this kind prevents accumulation of capital on a large scale. This bubble has been pricked long ago but the argument is still on parade

***Ibid, p. 49.**

for reasons which are easy to understand. Discussing this point Lord Keynes wrote :

> "The existing confusion of the public mind on the matter is well illustrated by the very common belief that the death duties are responsible for a reduction in the capital wealth of the country... Inasmuch as an increase in the habitual propensity to consume will in general (*i.e.* except in conditions of full employment) serve to increase at the same time the inducement to invest, the inference commonly drawn is the exact opposite of the truth."

> "Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth so far from being dependent on the abstinence of the rich as is commonly supposed is more likely to be impeded by it."*.

The moral is obvious. In any planning to be undertaken proper schemes for taxation must form an important part. They are required both for effecting a less unjust distribution of the wealth produced ; and the argument that they would hamper accumulation of capital is unsound.

Equally necessary for scientific planning is a sound wage policy. It should aim at the avoidence of exploitation inherent in the present economy. It should also be designed to bring about an accumulation of capital arising from a stimulation of the general propensity to consume rather than by relying on the savings obtained through the abstinences of the rich. It is not known how far the Bombay planners would be willing to accept this Keynesian principle. But it is doubtful whether a community of men largely representing the capital owning classes would understand this prescription for euthanasia. It would not be difficult to understand their point if they adopt the very opposite view—though it would, in the light of accepted principles be a false step. And we are not sure if it is not this false step that the *Eastern Economist* recommended when it wrote as follows in its issue of May 12, 1944.

> "Assuming that the imputed rate of wages increases at the rate of 6% per annum during the second and third plans, if the distributed rate of wages is allowed to increase only at the rate of 4% per annum, about

*Keynes, *General Theory*, p. 373.

> one third of the annual *increment* of national income is 'abstracted at origin' i.e. impounded at source and made available for investment. Such financial arrangements will do away with the necessity of 'comprehensive and drastic rationing apprehended in many quarters".

It is not clear from this how an abstraction from *wages* would lead to an abstraction of one-third from the whole of the *national income* which consists of other incomes than wages. But that, however, is not the point. Although the implications of this recommendation are not clear, it seems to suggest that to avoid drastic rationing we should allow for a wage increase of only 4% as against an imputed productivity of 6% per annum. Such a process might give us the necessary investments but it seems to be against the general Keynesian principle discussed above and unless a similar "abstraction at source" is applied to the incomes of the other factors would lead to exploitation of the kind mentioned earlier. Also, if this abstraction is carried to excess will it not set up a downward spiral of demand leading to a trade cycle problem ? More light is needed on the point but it all sounds ominous.

But more than in matters of detail the question of planning will have to be judged primarily with reference to a set of general criteria which should form the basis of planning. In the first place, we should evaluate any scheme of post-war economy with reference to the security and reduction of inequality it deliberakly provides for. Secondly, it should be designed to operate vigorously against the influence exercised on politics and economics by monopoly and the vested interests. Thirdly, the system of security contemplated is not to be in the nature of a concession grudgingly thrown out by one class of people at another but must be framed to maintain sooial cohesion by harmonising tho interests of the individual and the community. It must also be judged by the promise it holds to introduce and extend a system of government broadbased on the will of the people rather than with reference to the convenience of any particular section of the people however importan tthey might be. The *Eastern Economist* wrote a few days ago

that "in India the fear of the public is not that the planners will become the political executors of the plan but rather that they may be frightened out of it even by the moderate degree of State control implied in it". One can only hope, however, that the planners will not be frightened out of their own plans ! Indeed, the public in India would not even mind their becoming the political executors of the plan. But, if the people's will in this respect is to be sought, the plan should aim at the targets not only of efficiency in the narrow sense of the term but also at those of equity and democracy and learn to associate increasingly representatives of other economic groups in the formulation of policy Nothing can be more inimical to the growth of this harmony than any odour of economic communalism.*

**To be continued.*

PLANNING AND RECONSTRUCTION

By

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Bombay

While the war is on, the question of post-war planning and reconstruction is engaging the attention of the best brains in different countries of the world. The fundamental object of all post-war planning in each country is to see that after the huge and tremendous destruction due to war, the standard of living is maintained as far as the western countries are concerned and that it be raised in the Eastern countries like the Middle East, India and China where it is very low at present. Owing to war, new industries have been established in some of the Eastern countries as well as in South Africa, and it is the general object and the aim of these countries to make use of these establishments when peace comes, by diverting the war-time engagements of these machinery to peace-time requirements and to expand present and to establish new industries, the main object being to import less and also to have as much employment as possible if not full employment.

In the case of India, the word "reconstruction" is more or less a misnomer. For, "reconstruction" presupposes "construction" having been in existence and then destroyed during war. However, it is an open secret that India requires planning for construction itself. Of course, there has been practically no destruction and on the contrary some improvement has taken place, but still India is very far behind Western countries as regards the standard of living of the masses. Therefore, the requirement of India is planning for construction rather than for reconstruction. In India both Government and the enterprising businessmen are thinking hard as regards the line on which construction or reconstruction should be proceeded with as early as possible. The Government themselves have appointed a number of Reconstruction Committees, and some of the Committees have met

sometimes, but the net result to date seems to be that not even preliminaries have yet been touched.

Some of the important industrialists of India have put forward a plan for the post-war economic development. The principal objective of the Plan is to bring about a doubling of the present *per capita* income within a period of 15 years at an estimated cost of Rs. 10,000 crores. The plan has created great interest not only in India, but also in Britain and America. Of course, the Plan is yet in its initial stage, and a large number of details are to be worked out which certainly will present many difficulties and inconveniences. But the most important condition precedent laid down by the planners is the establishment of a National Government in India.

It can be easily appreciated that such a planning would require recasting over and over again even before a beginning has been made owing to varying circumstances in different directions such as economic, financial, social etc. The basis of the plan is to expand industry and also agriculture and thereby to increase the productive capacity of the country which would result in the increased purchasing power of the masses.

The fashion of planning for a country has come into existence since the Russian revolution when a number of five-year schemes were prepared and put into operation. In Russia the whole political system had been changed from one of capitalist to one of communist, and as such there was no question as to the cost, trouble or inconvenience to the masses. The Bombay planners have made a specific mention that the Russian method cannot and would not be appropriate for India.

There is another side of the picture also, and that is the example of the United States of America. There without any such planning the industries have expanded to an enormous extent and the standard of living has been raised to a high level. All this has been achieved keeping the political system on the capitalist basis. Though I do not mean to say that the American method will be fully suitable to India, I do suggest that in future

planning in India should choose from both the American and Russian methods whichever be most suitable and convenient to India.

However, I would like to mention that any post-war scheme of economic development of India should be based on the fact that India is essentially an agricultural country and that her agricultural resources are invincible provided means are found out earnestly to exploit them. 87 per cent of India's population lives in rural areas out of which 66 per cent is directly engaged in agriculture. Even if India is associated so much with poverty and famine, one cannot forget the fact that with one-fifth of the world's population and its vast land resources, India is one of the world's foremost producers of food; that she is the largest single producer of important commodities like sugar, groundnut, jute and lac; that she stands second amongst world's producers of tea, rice and cotton; and that India also holds the world's record for its cattle and livestock which stand at 167 million out of the total world's cattle population of 690 million. Even so, according to Major General Sir John Megaw, Director-General, Indian Medical Service, "only about 39% of the people were well nourished, 41% were poorly nourished and 20% were badly nourished". An idea of the ideal land resources which India possesses can be had from the fact that out of the total area of 1005 million acres, only 390 million acres are actually sown with crops and no more than 74% of the cultivable area is brought under the plough. To add, over 100 million acres are classified as "cultivable waste other than fallow", while the fallow land totals about 58 million acres. Much of this land is capable of being retrieved either for purposes of afforestation or agriculture. The problem in India therefore is how to bring more land under cultivation and how to employ means of intensive agriculture which will alone give more nutritious food, and more purchasing power to the millions in India.

A cursory glance at the comparative figures of production per acre in various countries will convince any one of the great scope that lies for improving the fertility of the soil in India.

Here are the statistics :

	Rice	Wheat (Yield in lbs.	Cotton per acre)
India ...	750 to 900	650	90
U. S. A. ...	1,500	850	150
Egypt ...	2,000	...	450
China ...	2,433	989	...
Japan ...	2,300	...	...
Italy ...	3,000	...	...
Canada ...	...	975	...
Australia ...	...	710	...

The Department of Agriculture, Washington, observes that:—

> "Yields (in India) could be increased substantially by applying necessary fertilisers which can be produced in India at half the cost of imported fertilisers. Adoption of better varieties and better moulds would also increase yields."

What is needed under the circumstances is method of intensified agriculture, through increased use of cheap fertilisers and a scientific rotation of crops which will increase the total agricultural production within the country and at the same time will give relatively more purchasing power to the farming community.

Side by side with the programme of intensified and scientific agriculture, certain other policies to implement the income of the farming masses shall have to be adopted. As the Famine Commission of 1880 had urged, there should be "the development of industries other than agriculture, and independent of fluctuations of the seasons." The fact should always be recognised that the only wealth which the masses in India possess is labour, which must be employed in the best possible manner. As in their Report on "A scheme for an Economic Census of India", Dr. Bowley and Prof. Robertson have suggested, cottage industries deserve our support because of their economic utility and social value. It is admitted on all hands that agriculture is an occupation which monopolises only a few months out of twelve that lie at the

disposal of the farming masses. A scheme should therefore be devised by which the period of agricultural slack can best be utilised by starting a series of suitable village industries.

Will these village industries be able to meet indigenous and foreign competition that may emanate from the product of the machine ? That will be the querry which many mill like to pose. To this I may readily reply that the Goverment of the country should make it a point always to protect these village industries by all means both against indigenous and foreign competition based on the efficiency of the machine.

This brings me to the need or otherwise for wholesale industrilaisation of the country through a large scale use of electric energy and machinery. I am one of those who are led to believe that by extensive industrialisation and mass production of industrial goods the problem of full employment has hardly ever been solved. For instance, in the most democratic and sovereign United States which is the country noted for nationwide industrialisation and michanisation, the machine-aided efficiency of workers increased by 71 per cent. between 1919 and 1933. But, it should be noted, that during the same period the number of unemployeds in the country also rose from 1½ millions to 12 millions. Industrialisation, mechanisation and mass production have always created a need for export outlets. Even in India we have had a specimen of what fresh difficulties industrialisation would creats. Sugar production can be referred to as a concrete instance. India's sugar industry is hardly a decade-old and yet its production within 10 years has so vastly increased that we had begun feeling the need for export outlets just about the time of the commencement of war.

My point is that the only wealth which the masses in India possess in labour, surplus labour for that, and our motto must be how to absorb that surplus, how best to harness it to the nation's advantage. The problem which India is face to face with is not labour-saving but labour-absorbing devices. To pursue the point further the aim of economic planning should be not economy of labour

but ample provision of gainful occupation to one and all. This is not to say that machine in all circumstances should be tabooed out of existence. Not at all. Machine has its own place but it should never be allowed to oust the secondary occupation of the village masses, namely, village industries. The national ideal should be: "Human labour wherever possible; machine wherever indispensable."

To conclude, planning and reconstruction should mean:

(1) intensified methods of agriculture to increase yield per acre;

(2) a broad plan to be devised for founding factories in each province with the help of provincial and central finances for the production of fertiliser and to supply it to cultivators at price which would make it profitable for them to buy and use;

(3) organisation of village industries to offer subsidiary occupation to the farming millions which is the crux of the problem;

(4) production of village industries to be protected by the State against machine-made production of Indian or foreign origin;

(5) production of cheap electrical power should be expedited in different parts of the country; and

(6) expansion of present and establishment of new—specially heavy and key—industries.

POST-WAR ECONOMIC PLANNING IN INDIA: BALANCES AND WEIGHTAGES

By

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So much has been written and spoken on this subject recently that any further writing should be necessarily in the nature of a review of reviews. The subject is so vital to the future interests of the country that even a review of reviews might do some good.

More than intensifying the industrial revolution, the present war has already set afoot the beginnings of a far-reaching -social revolution: the Atlantic Charter, Lease-Lend, the Hot Springs findings, social insurance schemes like those by Beveridge, and very recently, the Philadelphia Charter—all these have already made us *de facto* socialists, however much we might still be lacking even from a minimum standard. The sins of the capitalist regime in restricting production and grabbing criminal profits at the expense of the man in the street, have been exposed, and even in Britain (the cradle of individual freedom) State control is bound to be a prominent feature of economic organisation in the future. It is no surprise therefore that in India also, hopes have been kindled of a fundamentally better social order. The purpose of this article is to examine the main issues involved and the prescriptions being pressed forward.

A world economic unit has been the ideal for long, and this conception has been followed up in many of the schemes on hand. In the words of Philip Showden, "a cheap breakfast table—it does not matter from where the things come" is perhaps the most attractive proposition to which all allege loyalty. In the words of the *Economist*, we had the world financial tripod with three legs—the world monetary fund, the world commodity pool and the world bank. Unfortunately, that journal did not remember that for the tripod to maintain equilibrium, it required not only three legs, but more

than that, the level platform of security. Well, the three legs are in the fire: the Keynes and the White plans have been shoved into the model room and the latest is that Washington will invite a world monetary conference in the course of 1944 for which India has still to get an invitation* (24-5-1944).

But suspicions of United State's domination† are already loud and Britain‡ has already made up her mind about Empire insulation (exploitation ?) in any world scheme. She is afraid of American tariffs and asks what wouid happen to the world in case a slump should set in the U. S. A. So, we have the regional *bloc* scheme supported in Britain. And then, we have the democratic national view by which is meant social welfare first'—which generally leads to a low level external balance, we have the anti-liberal capitalistic nationalism under

*The Supply Member's confidence is attractive: in the recent meeting of the Consultative Committee of Economists, the Hon'ble Sir A. Ramaswamy Mudaliar is reported to have declared: In no case could India be placed behind China, because any test that may be applied would apply with greater force to India. If there were any political considerations and if America wanted to back China, he hoped for the same reasons India would get her rightful place. " At any rate " he declared, " I am perfectly certain that we will not take a second place in this economic structure." As yet, no place seems to have been given, and the Finance Member himself was not quite sure even of an invitation !

†On top of numerous differences even before the victory is won, comes the latest declaration by Adolf A. Berle Assistant Secretary of State, U. S. A., that the next war if it comes will probably commence with an attack on the United States. "No longer can the American content himself that the war overseas cannot reach him because two oceans lie between him and the area of active danger."

‡The following passage from the *Economist* speaks for itself: "India's dollar income has been small. Most of the merchandise trade between India and the United States *was canalised before the war through British merchants* and was now even more exclusively "*sterlingised*", the commodities in question being mostly handled by official controls. India's main direct United States dollor income is derived from the American military expenditure in India.................The bulk of this American expenditure is however met by gold sales *in the open market* and therefore involves no direct dollar payments to India."

which economic power is the goal, and we have also the British ideal of a maximum level of external balance which only could support her high standard of life. In India, there are some who conjure up for admiration a "greater Asia" under Indian leadership. Some advocate an economic autarky by which an industrialisation policy would be ruthlessly passed, and some would attend mainly to home demand for consmption goods, restricting external trade to the complementary field only. These rightly point at the pitiable situation of British overseas investments (mostly consumed by the present war, part by annexation, part by disposal) and the Indian sterling balances which are predominantly like a gold bag in the mirror.* The story goes that Rama was consoled like this when he wanted to have the moon.

Thus, it is all a question of weightages and balances. Every one is anxious to bring about a balance, an equilibrium, but few appear to attach due weightages to the different items. There is the income-consumption-saving-investment problem. Should we increase the national income of India at a rate calculated to ensure social welfare in this country, in the shortest possible time or should we

* The Hon'ble Sir Ramaswamy Mudaliar is again very confident: "It should be possible for the Government of the day to order what goods should be imported into this country and if capital goods can be imported and are to be imported, we ought to get as far as possible such capital goods at *reasonable competitive prices* from the U. K. so as to extinguish the sterling liabilities of that country." Italics are mine. Reasonable competitive prices! Even before the victory is won, when there is every need for the Big Powers to prove their sincerity, in the name of competition and an open market (see the second foot note on page 2), this country is being made to swallow gold at 67 dollars (in rupee terms) per fine ounce while the American price is 35 dollars! In numerous quarters, it is being seriously argued that India has built up her sterling balances sheerly on account of the generosity of Britain: the free gift by Canada is being held up for India to "understand" the situation. If this be the situation with regard to gold, how far India could expect plant and machinery from Britain at competitive prices from out of the sterling balances cannot admit of two opinions. The recent gold sales in India prove that the big powers could confidently befool this country, using high-flown language, before this, now and hereafter as well.

adopt any and every means for reaching this end? Sir Vitaldas Thackersey opined that Indian mines should be worked only after sufficient Indian enterprise and skill had been developed. It is calculated that if only the Mysore gold mines had been worked by the Government of Mysore, there should have been no need for any taxation in that State. There are the consumptionists and the investmentarians. The former point out that in India the level of consumption is so hopelessly low that for a long time to come, the main, rather the sole, business should be to raise the standard of healthy consumption by any means.* There are the investmentarians who tell us that they are more anxious to raise the standard of living, but that should be by increasing the national income more rapidly, at a higher gradient, and this requires a high level industrialisation. A "balanced" economy is pleaded for. Lord Keynes projected his Multiplier theory very tentatively, assuming short period calculations only, but several of our Indian economists have manufactured clever tables arriving at mammoth increases in the national income round the corner—

*The weightage attached to the national standard of life in Britain and in India is shown by the following figures. In 1943, the British Government spent £ 205·8 million in subsidising the sale of essential articles at low rates. This expenditure included not only items like bread, flour, meat, potato, sugar and milk, but also fertilisers, feeding stuff for cattle, loss to the Ministry of War Transport on account of the carriage of imports for civilian consumption, and free milk supply. Today, prices are (at 18 d. per rupee) :—

		in India			in Britain		
		Rs.	a.	p.	Rs.	a.	p.
Bread per lb.	...	0	8	0	0	2	0
Sugar per lb.	...	0	4	0	0	3	7
Potato per lb.	...	0	3	0	0	0	10

Comment is needless.

assuming a congenial world* ready to help India at any time on any point without reserve and without self-interest. On the other hand, others feel that our resources available for utilisation are very small, and the whole of it should be required to improve our position with regard to food, clothing and other consumption goods, housing, health, education and communication and transport. It is too well known a fact that in the inter-war period, Indian agriculture made very little progress and Government expenditure on agricultural work was quite nominal. The non-monetary benefits of a healthy agriculture have never been duly appre-

*See footnot 3 on page 2. While the Supply Member assumes as an axiom the realisation of India's sterling balances in full value at "reasonable competitive prices" (British supply of capital goods to India), the following report of the latest-by the *News Chronicle* expresses much nearer the real situation: "With reference to the 'tremendous financial obligations' incurred by Britain, the Paper says, 'the main item therein is the undischarged overseas liabilities in the form of sterling balances and short term obligations. It points out that much the largest share of this debt is that of India which is now 'increasing more rapidiy than ever'. It emphasises the total debt owed by all countries—probably £ 3,000 million by the end of the war—will be a tremendous burden, 'equal te *three times the American debt we failed to repay the last war*'. It states, however, this debt will be funded at a lower rate of interest than offered to America and "also by reason of the probable substantial rise in our national income, the real weight of this world war II won't be three times that of the world war I debt. Nevertheless, to discharge it over 60 years (the period fixed for American debt repayment) rockoning interest at only 1 per cent, would need *annual instalmenls of approximately £ 60 million—almost double the £ 33 million American debt payment on which we defaulted in 1932.*" Italics are mine. Paraphrased, this passage could mean only one thing: with one third the debt owed to an independent country and spread over 62 years, we defaulted and the United State wrote off. What about India's dues? Step by step, we shall postpone, spread the repayment over long periods, lower the rate of interest, block the instalments for some time, and—if world war III breaks out by that time, the Indian debt will be scrapped even as the American, and if this world war III does not break out, the annual instalment of £ 60 million could be easily reduced to something nominal in real terms—what with high prices, low quality, shipping charges, banking and insurance commissions, not to mention exchange adjustment on which we are relying so much for post-war planning.

ciated by Indian authorities. Governments in India have been accustomed to follow the line of least resistence, and they naturally found it most convenient to placate capitalist opinion by adjusting Government policy to suit the immediate demands of capitalists. In the same inter-war period, in the face of the applingly low standard of life, a protectionist policy was followed for a handful of industries, and the consumer and the farmer were left alone. Ordinary dividends declared in India during 1918-1937 per annum were (percentages) jute 44·7, cement 23·3, paper 20·6, and cotton 20·6. These sweets have of course led to further demands. The serious difficulties of external finance, external trade, external balances and investments have not been appreciated, and, the poor consumer in India is told: "You have been famishing for so long. Why not you wait for a few years more ? We shall then give you splendid dishes." Some even go to the length of saying that as the national income increases, consumption should be controlled so that a greater proportion of the increase in the income could be diverted to investment. On the contray, there is the other question—is it desirable to allow a runaway standard of life ? Or, it wiser to maintain a good margin—as well for peace as for war ?

Agriculture is the Cinderella of the piece—all over the capitalist world generally, in India particularly. The biological recuperative faculties of agriculture have been ignored and the profits of industry have been fascinating men's minds although no industry in any part of the world has even been a hundred years old. The purely temporary prosperity of the industrialised countries before the first world war—based on non-competitive foundations in the name of competition—are being mistaken as a permanent virtue of industrialisation, and the spectre of the trade cycle is lost sight of—even as the cat closes its eyes while stealthily drinking milk.

Some doctors advocate a balanced diet as a partial remedy for deficit supply of food, while others insist that what is wanted by the ordinary man is not a balanced diet but a balanced stomach:

he wants his fill. While we are on the minus side with regard even to food grains, our supply of vegetables, meat, fruit and milk are worse than nominal. (See last foot-note on page 2) While in a recent article in a British journal, the cost of living index was criticised as stuck to a static standard (labourers in Britain desire a progressive standard of life), with no weightage for fruit, with only potato as representative of all vegetables, here in India, our index has the standard of *Rama Rajya*! Even in the field of consumption goods and elemantary needs, some give the first place to education, some to communications, some to food and health.

The most primary need is for us to remember how deep we are on the minus side. In a recent inquiry in a Punjab village (Launa), the investigator pointed out that the total expenditure for feeding, clothing and housing the villagers worked at one farthing a day per head. Our educational expenditure is a few annas per head per annum (in the elementary stage) while the figure for England for 1939-40 was £ 16-17-1. The British and the U. S. *per capita* income about the same time (1938) was £ 90 and $ 500.

Our two crushing defects in the past have been (1) procrastination in the name of experimentation (even now we have our "cautionists"), and excessive centralisation resulting in pathetic inefficiency. It required the Royal Agricultural Commission to conceive of the Imperial Council of Agricultural Research (that Commission could not think of an Imperial Council of Agricultural Economy), and it was late in the thirties of this century that that august body made the following revelations: no more effective proof could be needed for proving that procrastination was the thief of time.

"If the grower was to receive better returns for his produce, it was essential that the question regarding the establishment of regulated markets should receive the early attention of Provincial Governments." Marketing Officers' Conference, September, 1937)

"Small compact committees for each important commodity be appointed in order to correlate needs of research with the practical economic needs of the country in respect of each commodity" (August, 1940).

"The publication of these records has done a great deal to focus attention on the hitherto unsuspected capacity for economical milk and butter fat production of Indian cows of pure indigenous origin."

Reasonable weightages and a sound balance in the national economy therefore demand at the very outset, firstly, covering the entire country in any scheme for betterment (and not more demonstration plots or city improvement blocks) and secondly, the establishment of agricultural stations each to cover about 50,000 acres of cultivated or cultivable land, entrusted with all development work except large irrigation and hydro-electric works. The co-oprative or the collectivist method will not do for the present. The former is yet an official movement in India and the latter demands a great deal of social education: our Sargent scheme which is considered to be quite progressive plans for 40-50 years! These stations should be equipped with machinery and funds for reaching the door of the cultivator within a few hours after his application with necessary help on business lines. One feature which would have to be adopted from the Russian system from the beginning would be to offer these services at fixed rates *in kind*, to be collected at the next harvest. In this arrangement, departmental heads would be more or less advisory (except for a few questions relating to policy) most of the material required by these stations would be local.

It is essentially a problem of distribution of our resources, a wise application of the law of equimarginal utility. There is a proverb in Kannada: "hottege hittilla. juttige huverithu" (no food for the stomach: flowers ornament the hair), and if most of us are harping the glories of industrialisation (even in the name of balancing), it is simply a case of diseased psychology, itself a product of

wrong education both inside and outside our schools and colleges. The *Economist* rightly said:

"Not a very impressive document (the Bombay Plan), its figures of Indian resources, income, expenditure and investment are illustrative exercises in economic arithmetic rather than representations of the actual facts of the case. In view of enhanced post-war price levels, the costs of the plan are almost certainly much under-estimated. There is a great probability of inflation, nor are the methods by which the massive programme of investment could be carried out made clear. The neatly rounded figures in the plan are somewhat too notational and imprecise to give any real guide to an effective programme. Increase in the *per capita* and national income is the most urgent necessity: if not the Bombay plan, then there must be some other scheme, some other policy, of economic reconstruction."

CAPITAL REQUIREMENTS OF THE BOMBAY PLAN FOR ECONOMIC DEVELOPMENT OF INDIA

By

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Progress of mankind through the ages has not always been uniform or unimpeded and human history has had its dark ages. Even then, when the storm and stress of this frightful war will be over, there will be an attempt at a solution of human problems in an intimate and sympathetic understanding of the natural and social forces in the midst of which we live. So, in the post-war world, every nation will have to face large problems of social, economic and intellectual reconstruction and India vill be no exception. Problems of post-war reconstruction are already increasingly gaining ground in India. The Bombay 15-year Plan is an attempt to produce a comprehensive scheme to raise the standard of living of India's teeming millions after the war. We welcome the Plan not as a ready-made panacea but as an earnest effort to provide a happy basis for India's social and economic life.

The main outline of the Plan is this—the existing per head income in India is Rs. 65/- a year. this is too low even for bare existence and the sponsors of the Plan propose to double it in 15 years. Assuming that the rate of population growth will be five million a year, the total national dividend should be trebled to double the *per capita* income.

The pressnt aggregate income of rupees two-thousand and two hundred crores is derived from three main sources namely agriculture, industry and services in the ratio of 53, 17 and 22 respectively. It appears from this ratio that India's present economy is predominately agricultural. The Planners therefore propose to have a "more balanced economy"; as such, agricultural income

should expand by 130%, industrial income by 500% and services by 200%. The national income in 1960 i. e. at the end of the 15th year should be Rupees six thousand and six hundred crores of which Rupees two thousand six hundred and seventy crores would be contributed by agriculture, Rupees two thousand two hundred and forty crores by industry and Rupees one thousand four hundred and fifty crores by services.

Coming now to the question of finance, Rupees ten thousand crores would be required over 15 years to finance the Plan and this would be distributed among the three branches of activity, agriculture—Rupees one thousand two hundred and forty crores, industry—rupees four thousand four hundred and eighty crores and services—Rupees four thousand two hundred and eighty crores. The total capital would be raised from "external" and "internal" finance. External finance would be devoted to buying capital goods. The authors of the Plan propose to use Rupees three hundred crores of the hoarded wealth of the country, the sterling balance of Rupees one thousand crores, the favourable trade balance of Rupees forty crores a year and Rupees seven hundred crores of foreign loans. Internally, they estimate that the savings of the people at 6% of national income would produce Rupees four thousand crores while Rupees three thousand and four hundred crores could be created by borrowing against ad hoc securities from the Reserve Bank of India.

The Plan is proposed to be realised in three successive stages of five years each.

Criticisms of this Plan, however, are somewhat difficult at this stage because the authors themselves do not consider it in any sense complete and they have put it forward only as a "basis of discussion". It would be easy to find flaws, but they invite constructive criticisms. As such, we discuss some of the points raised to determine the magnitude of the capital required to raise the national income to the level the Plan desires to attain.

At the outset, one might doubt the validity of the statistics quoted on which some of the key

calculations in the Plan have been based. The estimate of the total capital required is based on 1931-39 price level because the authors expect that pre-war prices "will return not long after the war". But we greatly doubt as to whether this will actually be the case. If it is not, then the required capital outlay may be substantially higher than this Rupees ten thousand crores and if the prices do come down to 1931-39 level then this sharp fall in prices may not be in the interest of India's economy in which case efforts should be made to secure a rise in the price leve. Then again we know that the prices are rising to soaring heights since the outbreak of the war and rising prices vitiate any comparison between one period and another. Rs. 45/- in 1913-14 would be equivalent to Rs. 81/- in 1921-22 if the rise in prices is taken to be 80%. Just imagine what the 1914 Rs. 45 would be to-day with a rise in prices of say more than 200% since 1939. If we think in these terms then the "colossal dimension" of Rupees ten thousand crores is not too high.

Any Plan to be a Plan proper should emphasise the time factor. The period of time any country will absorb in planning depends upon the relation between the rate of capital invested and the growth of national income. Theoretically, the ratio between the rate of capital invested and the growth of national income is 2. To take an example, if we want to double the national capital in a period of time, we should make capital investment four times. This ratio is of course subject to qualifications. In an advanced economy, due to industrialisation and capital intensification, the ratio tends to be higher. But in a pronounced backward country like India, richly endowed with raw materials, but where capital is relatively less than labour, the ratio would likely to be lower.* So the proposal to double the national income in 15 years seems to be more or less a fairly good period.

We now examine some of the sources from which the capital required is to be derived. The Plan distinguishes between external and internal

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finance. External finance is that finance which is, or may be, available for payment to foreign countries for goods and services imported from them while internal finance is that finance which is required for the mobilisation of the country's resources. Problem of internal finance is a problem of the diversion of domestic resources and man power. The financing of the Plan will of course mean a continuous currency expansion over a period of 15 years at a pace more or less equal to that which has taken place since the outbreak of the war. But because of the larger and accelerated flow of consumers' goods, the absence of an accute wartime scarcity of goods, growth of population and the like the effect of such an expansion of currency, it is said, will be different. We all agree that it is possible to finance an expanding economy with the help of credit inflation and this sort of forced savings always plays an important part during booms. But inflation is an inequitable way of distributing the burden of sacrifice and we must be aware of the economic and political limits to this method of financing. Yet taxation and inflation are the only alternative methods of mobilishing the nation's savings. We should therefore estimate the maximum volume of savings that could be made available to us without encroaching too heavily on the already too low standard of living of the masses. This necessitates the introduction of the most stringent measures of price control and rationing. To prevent inflationary forces from affecting the international standing of the rupee and the confidence of foreign traders, it might easily become necessary to control exchange as well as foreign trade. Germany solved this problem by means of strict exchange control thereby recovering its equilibrium and increasing its economic power at a very rapid rate. There may be nothing objectionable in principle against an all round control but there are certain practical considerations which we cannot easily ignore. Will it, for instance, be possible to find the vast army of Officers with the requisite administrative skill to enforce the control measures ?

The colossal dimension of capital expenditure

contained in the scheme may appear impriticable to those whose minds are still dominated by orthodox financial concepts. To orthodox economists, economic development depends upon the amount of " savings " and " enterprise " available. So any Plan should start by estimating the financial resources and the strength of the credit and monetary system—by adding up figures of savings, deposits in the banks and the " backing " of the currency. But neither Russia nor Germany had any " financial resources " when they started their five years and four years plan respectively. Even today the war is a great educator. The fact is money or finance is not the master of a country's economy but its servant and instrument. The real capital of a country consists of its resources in materials and man power and money is simply a means of mobilising these resource and canalising them into specific forms of activity. The limit to production is thus set not by the shortage of money or savings but by the shortage of man power and raw materials which cause the worst bottlenecks. Capital equipment can be built up quite quickly with proper organization.*

But, until the point of full employment is reached, according to Keynes, " savings " are not necessary, for " investment " creates its own equivalent amount of savings for the community, and the existence of unemployed resources is itself the character of a " capital fund " which is available for industry. In India, for a long time to come, we may not be troubled with the shortage of man power but uneven distribution for capital intensiveness will mean slower rate of economic development. So because capital is more scarce than labour it is not economical to use highly automatic and costly machines. The pace of industrialization should be adjusted to our capacity. Organized industries, which the Plan emphasises, cannot in the short period create sufficient employment on account of this shortage of capital equipment. The volume of unemployed labour is a very important source of capital in the highly industrialized coun-

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tries but in a backward country like India, the fixed capital itself has to be built up through a laborious process and so there will be a considerable time-lag between the input of labour and the flow of output. Organized industries are therefore unable to secure full employment in India. The tempo of industrialization as such should emphasise more on the small and cottage industries where initially we can have scope to use more of labour and less of capital thereby economising capital and providing maximum employment. Then as the country makes economic progress, there will be an increasingly larger fund of capital available enabling it to absorb more and more advanced technological methods. This problem of technological time preference is therefore of fundamental importance to a scientific economic plan of India. Here we must also look to the nature of the occupational distribution of the population which will conduce most effectively to secure the increase of national output planned for, having regard both to the growth of population and the existing occupational distribution. In India we have, as we see, yet to go through the primary stages of an industrial revolution and we know that machinery creates more employment only in the long run but in the transitional period, capital and labour are antagonistic. Even then, the policy should not be a reversion to crude technology but the adoption of it redncing the social hardship and maximising the output per head—that is, the adoption labour using and capital economising methods. Maximum economy in the use of capital resources cannot be achieved by using highly technological process with a large fund of unemployed labour power.* Unfortuntely, the signatories of the Plan have made no reference to this very important aspect of planning.

The problem of external finance emerges because no country is completely self-sufficient and must import something or the other. Moreover, the method of raising the ten thousand crores of rupees required for capital expenditure show that the Planners do not propose to work in a "closed

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economy" even when India will produce her own food and consumer goods. But the proportion of our external finance in modern industries is as high as 70% and the capacity to manufacture high grade equipment is deficient. If we can concentrate on machine tool and allied industries, we can reduce the proportion of external finance. Out of the total capital requirement of Rupees ten thousand crores, hoarded wealth, it is said, will give us Rupees three hundred crores, sterling balance Rupees one thousand crores and borrowing from abroad Rupees seven hundred crores. The problem is now to find the remaining Rupees eight hundred crores. Mr. Birla's reply to this is "whether you call it favourable balance of trade or savings or created money, ultimately it comes out of our own production and thus the whole sum may as well be called a saving." In fact, from 1900 to 1930 India's surplus of foreign trade was anything between Rupees thirty to forty crores worth of goods every year and imported gold and silver worth several crores a year. This represents India's savings. So with increasing production, an annual saving of 16% is not an impossible figure. So far as the sterling balances are concerned we cannot use the whole of the accumulated sterling to import capital goods because a fraction of it must be there to provide liquid resources for our foreign exchange.

The chief difficulty with the Plan is that too many things are unsaid in this scheme. Finance and capital goods may be available but this does not guarantee the success of the Plan. This leaves the all important question of control. The authors admit that "every aspect of economic life will have to be so rigorously controlled by Government that individual liberty and freedom of enterprise will suffer a temporary eclipse." The authors should not consider this problem of State control from a narrow capitalistic point of view. The execution of the Plan will run counter to many deep seated prejudices and traditions. In the initial stages, it will no doubt call for a very large measure of personal discomfort and sacrifice. Where success is guaranteed, the people, we think, will adjust to the new situation.

Doubt has also been expressed by some whether the necessary machinery and other capital goods can be obtained in the post-war period, particularly if China also embarks upon a similar policy of economic planning. But immediately after the war, there will be a high demand for capital goods in the U. K. and some countries in western Europe. On the other hand, the U. S. A. will have a far larger capacity to produce capital goods than she had in 1939. India will have to spend the first three or four years for preparatory work so that India's demand for capital goods will have to be planned in co-operation, and not in competition, with other countries. So it is not unreasonable to assume that India will be supplied with her required capital goods.

Before I close I take this opportunity to congratulate the signatories for their earnest attempt in giving us the Fifteen—Year Plan for India even though "there are many details that will have to be worked out and many modifications that will be necessary before and during the time the Plan is put into execution." It is, as the authors say, characterised not as a blue-print but as an outline indicating the direction and the goal.

WAR AND RECENT TRENDS IN INDIA'S FOREIGN TRADE—I

By

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In the midst of the devastating war that is raging in the world at present everybody is already devoting much attention to the colossal problems of world reconstruction at the end of the war, and one of the most outstanding of such problems will be that of international trade, for from the dawn of the so-called " civilization ", it is trade that was the cause of cultural contact between peoples and it is trade again that paved the way " for political conquests ".

Whether the present war is a result of economic factors or the mere greed for power on the part of a few Dictators, it is generally agreed amongst statesmen that a better and more prosperous New Order can be built only upon a more equitable distribution of wealth and a system of freer exchange of goods amongst the nations of the world. The statement of President Roosevelt in 1942 that " there will be no day of reckoning in settling the obligations arising out of the Lease-Lend agreement " is a positive proof that America is determind to establish a more rational economic World Order than the present. India with her vast resources, is certainly bound to play a very important part in such shaping of the World Order and hence it becomes necessary to intelligently shape the future of her foreign trade. For this, it is needless to point out that a study of the past and a grasp of the present are indispensable.

The chief characteristic of the commerce of the ancient India up to about 1000 A. D. was that, qualitatively speaking, it was a heavy exporter of manufactured goods, of which textile manufactures of all sorts formed the bulk. With the advent of the British rule, however, the tide turned. " The successful gamblers for the trade and sovereignty of

India " began to slowly plan for a total destruction of the fundamental basis on which the country's trade rested for many centuries. In order to secure lucrative markets for her manufactures and to guarantee for herself a big reservoir of raw materials, foodstuffs, tropical goods, England had perforce to destroy Indian iudustries and trade and reduce India's status to that of a mere dependency, economically. India has thereafter become a mere agricultural country, with her great industrial resources untapped and underdeveloped. The composition of her foreign trade thus entirely changed. With the exception of a few manufactures such as dyes, the manufactures of India gradually fell off in the list of exports and the gap was filled up by raw materials. Regarding the imports, there was a steady increase in foreign manufactures especially of England.

The First Great War and India's Trade

With the outbreak of the First Great War, there was a huge reversal in India's foreign trade. India's exports fell by about 45% and imports by about 35% during the first eight months of the war, due to the extraordinary conditions that prevailed during the war. There was, however, a slight revival of the export trade afterwards, though the import trade was still hard hit. This continued throughout the war-period, but after the war, India's foreign trade boomed up along with world production and trade. Both imports and exports increased by 23% and 30% respectively notwithstanding the continuance of control over the exportation of rice and wheat. Though there was a slight set-back to the progress during 1921-22 and 1922-23, yet from 1923-24 the "pendulum began distinctly to swing forward", and there was steady progress up to the end of 1929-30, in which year the world was thrown into the throes of an economic depression which was one of the severest to which the world was ever exposed.

Many European countries adopted bilateral treaties (under which the foreign trade of a country will be governed by conditions and stipulations

specified in an exclusive reciprocal trade treaty between two contracting countries) during 1932-36 as urgent defence measures to stop the perilous decline in their export trades and as symbolising a policy of expediency designed to contribute a temporary solution in a chaotic world. The Government of India, however, fought shy of bilateralism, pointing out that India should not entangle herself in reciprocal treaties and other commitments. The repercussions of the crisis in international trading relations on India were very largely determined by the economic foreign policy of Great Britain, who attempted to consolidate her Empire and make it as far as possible self-sufficient, so that the evils of depression might be effectively warded off. This led to a greater control of India's foreign trade by Britain and in the teeth of national opposition, the famous Ottawa Pact, advocating Imperial preference, was concluded in 1932. The terms of the Agreement never satisfied the commercial interests of India and almost all the people disliked it. Naturally, therefore, the Agreement had a short-lived existence for about 4 years and came to an end towards the close of 1936, synchronizing curiously with the end of the depression period itself.

From 1936 onwards, there was an upward trend towards recovery all over the world, including India which sorrowfully remained still an agricultural country exporting raw materials and food-stuffs. After 1936-37, the agricultural prices improved favourably and India's exports made some headway.

The Present War

The present war exerted a most profound influence on the course of India's foreign trade. During the early months of the war (*i.e.* till 31st March 1940) our export trade made a spectacular advance and did not lose its continental markets excepting Germany and Poland but subsequently the European markets were lost one by one and the export trade considerably declined. Regarding imports they were slightly higher in the beginning

but later on, they also declined. On the whole, during the first war year, 1939-40, the exports increased by about 40 crores, while imports declined by about $1\frac{1}{2}$ crores. These figures, however, do not reveal the true state of affairs, for both the exports and imports were adversely affected by two important factors, *viz.* (1) official restrictions and (2) serious reduction in available shipping, both necessitated by war.

Of the exports, it is significant to note that manufactured articles showed a greater increase than raw materials. Of the 40 crores' increase above-mentioned, about 38 crores was due to the manufactures, the remainting two crores being of raw materials and foodstuffs. Jute manufactures were the most predominant in our exports and raw cotton, raw jute, oil seeds, grains, pulses and other foodstuffs showed a decline. It was thought, therefore, that the prospects of raw cotton, jute, oil seeds etc were not bright and hence suggestions were made by various commercial people that either (1) alternative markets should be found for our products, or (2) greater internal consumption, through greater industrialization, should be encouraged, or (3) production should be curtailed.

(1) The question of lost European markets, as far as our exports were concerned, necessitated the exploration the possibilities of new markets and received the attention of the people as well as the Government of India. The Government constituted the "Export Advisory Council" of business-men to assist the authorities to tide over the difficulties created by the loss of European markets. Various expedients were undertaken by the Government to improve the Indian overseas trade but some of them were ineffective. For example, the trade talks between India and Japan and those between India and Ceylon proved a failure. It was also proposed to send out trade commissioners to those parts of the world where Indian trade representation did not exist before, such as Australasia, South Africa, Iran etc, to investigate and suggest ways and means for the improvement of our trade.

The Indian Trade Commissioner in East Africa drew the attention of the Government to the op-

portunities presented to Indian manufacturers to exploit the East African markets and the Belgian Congo market. In his monthly report for Dec. 1940, he gave a number of commodities manufactured in India in fairly large quantities, which were hitherto supplied by the Furopean countries, but which India would be called upon to supply in view of the fact that most of the continental sources of supply were shut out. Among the articles specially mentioned by him, there were building materials, hardware, brooms and brushes, sanitary equipment, paints and varnishes. According to the report of the Mombasa Trade Commissioner for the quarter ending September 1940, the value of imports from India into Kenya, Uganda and Tanganyika during the nine months ended September 1940 was nearly twice as much as that of the corresponding period of 1939. Imports from India of almost all the principal commodities showed increase and many new lines such as hardware, cutlery, crockery, glassware, batteries for torches, toilet requisites and biscuits, formerly supplied by the European markets, were obtained from India. In this report, the Trade commissioner referred to the increasing interest of the East African merchants in Indian manufactures and stated that he was receiving a number of enquiries regarding leather goods, soap materials, electrical goods, wire nails, stoneware pipes, cycles. readymade clothes, children's toys and many others.

Australia also became prominent, as being a potential source for supplies which hitherto used to be imported from continental countries. It was in recognition of the definite indications that India could increase its trade with Australia, that a Trade Commissioner was sent to Australia during 1940. For 1940-41, Indian exports to Australia increased by about 200 lacs, while Australian imports into India recorded a rise of about 10 lacs only. The principal items of Indian exports consisted of Jute manufactures, tea and linseed, while imports from Australia consisted of wheat, wool, tallow, stearine (*i.e.* animal fat), zinc and provisions.

Japan gave way to India, who led all other

countries in the Afghan market during 1939-40. India supplied Afghanistan goods worth about Rs. 2 crores more than in the preceding year. Cotton piecegoods constituted 39% of the total exports from India and exports of silk manufactures increased threefold while those of boots and shoes were doubled. Other goods exported in larger quantities than before were cement, hardware, cutlery, iron and steel materials, paper and tea.

During the period under review, the Government of India deputed the Mombasa Trade Commissioner (Mr. M. H. Ismail) to Iran to explore the possibilities of marketing Indian goods there, particularly cotton piecegoods for which Iran afforded ample scope. He was asked to furnish a report to the Government, on the basis of which it would be decided whether to appoint an Indian Agent or Commissioner in Iran.

During the same year the Government of India sent out the Meek-Gregory Mission to the U. S. A. for investigating the possibilities of increasing the exports of primary commodities to that country, The exports to Americas actually rose to such an extent that she displaced Japan from the position of India's second best customer, (the first being, of course, the U. K.). The vast bulk of India's trade with the U.S.A. is in primary commodities and semi-manufactured goods, of which jute and jute products are by far the most important items. Other important products exported are short-staple cotton, carpet wool, goat skins, myrobalans, lac, shellac, tea, cashewnuts, raw rubber, manganese, pig iron, furs etc. India also established a good reputation in the U. S. A. for its handicrafts such as metal ware, wood work and textiles and the caption "Made in India" came to enjoy a definite sales value in the American market. The war thus increased greatly the importance of Indo-American trade and India is today shipping to the U. S. A. record quantities of strategic materials, agricultural and mineral, and receiving in return quantities of machinery, metal, manufactured vehicles, oil and chemicals. Since the outbreak of the war, India's trade with the U. S. A.

has more than doubled and that country now ranks second only to the U. K. in trade with India.

But the war had adverse affects on India's exports to Japan. Taking advantage of the war Japanese Government imposed restrictions on the imports from India of commodities like leather, oilseeds and shellac. Imports from Japan, however, increased in those commodities which were hitherto supplied by the U. K. and other European countries.

Since the outbreak of the war, the trade between the Eastern countries of the Empire began to steadily increase in volume, while the group as a whole was feeling it difficult to solve its problems of surpluses and deficits created by the cessation of trade with the European markets. For the successful solution of such difficulties, therefore, a conference was held between the countries of the Eastern group, thanks to the initiative taken by our Viceroy in the autumn of 1940 and as a result thereof, what is known as the "Eastern Group Council" was constituted to promote the trade between the countries forming that group, in order to make up for the loss of European markets. It may however be noted that this council had a rather short-lived existence for it was disbanded in April 1943, since it could not achieve the desired results.

2. We may next pass on to the second alternative, *viz.* greater internal consumption, through greater industrialization. As already noted above, India's imports fell by about $1\frac{1}{2}$ crores during 1939-40, the first-year of the war. This decline is made up as follows:—while foodstuffs remained steady, the imports of raw meterials increased by about $7\frac{1}{2}$ crores, and those of manufactures declined by about $8\frac{1}{2}$ crores. This gave an indication of the scope and extent which Indian Industries had for development. The decline of imports of machine-made goods gave a direct stimulus to industrialization in the country. But, as will be seen later on, it was not possible to industrialize the country to the extent desired due to various reasons. As far as war equipment is concerned, however, there has been a decided improvement. India is now manufacturing nearly 400 new articles and while the

range and output of many of its existing industries have considerably expanded, due to the rapid intensification of India's own defence preparations and also due to the role it has been called upon to play as the "Arsenal" of Empire countries east of Suez, in terms of its undertaking at the Eastern Group Conference. Many articles, the production of which was not considered hitherto as worth while or economical, have now begun to be manufactured under the stress of wartime necessity and every effort is being made to replace imports, wherever possible, by indigenous production, in order to attain the largest measure of self-sufficiency in the matter of defence and civilian requirements.

The Government of India also imposed restrictions on the imports of certain commodities, which would be better produced in India itself and created the "Industrial Research Bureau" for giving scientific direction to utilise certain primary commodities such as vegetable oils etc. in the evolution of new industries.

3. Lastly, the alternative suggested above was to see if production itself might be curtailed. Indeed, steps were taken by the Government of India to see whether there could not be any definite restriction of production of some primary commodities, which, owing to loss of export outlets, were suffering from "overproduction". For example, the sugar jute and coffee industries were reorganised in order that there might be no overproduction in these commodities, resulting in a glut in the internal market in default of the existence of the long accustomed European markets.*

To be continued.

RAILWAY CONVENTION AND SURPLUSES

By

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The Railway Convention was drafted in 1924 when railway finances were separated from the General Budget, as per the Acworth Report. But it was much in contrast with the observations of the Acworth Committee that the exact provisions of the Convention were drafted. They observed: "The railway department, once it has met its liability to its creditors, should itself regulate the disposal of the balance and should be free to devote it to new capital purposes (whether directly or as security for new debt incurred), or to reserves to dissipate it in the from either of reduction of rates or improvement in service;"* and concluded that "the only payment by the railways to the Exchequer should be the interest at a fixed rate on the capital invested." The liability placed on the railways was actually heavier.†

It is well-known that the convention has failed, for two main reasons, it was inflexible in operation, as the liability of the railways was almost fixed and incapable of occasional variation. This would—in fact did—work well during prosperous times, but fail—and failed miserably—during less busy times. Years of increasing traffic are years of bumper profits; while years of falling business are years of threatening finances. Thus the railways could contritute to General Revenues only until 1928-29, and failed to do so later. The following table clearly shows the difference in the financial posi-

*The Railway Act of South Africa also incorporates the principle that "The railways of the Union shall be so worked that the gross receipts shall not be more than sufficient to earn the working expenses, reserves and the interest on capital. If there is any surplus, it is to be devoted either to improvement in facilities or reduction in rates."

†1% on capital at charge, plus 1/5 of surplus after the above charge, minus loss on strategic lines borne by general revenues, plus 1/3 of any excess over 3 crores after the above payment and after meeting loss on strategic lines.

tion of the railways before and after 1929-30, in the light of their liability to General Revenues.

INDICES OF REVENUE, EXPENDITURE AND NET RECEIPTS

Year	Gooss Traffic Reciepts	Operating Expenditure	Net Receipts
1925-26	100	100	100
26-27	99	100	98
27-28	104	100	112
28-29	105	102	109
29-30	122	106	101
29-30	100	100	100
30-31	79	96	86
31-32	72	88	69
32-33	70	88	60
33-34	72	89	66
34-35	74	89	77
1935-36	75	91	79

The other defect is more fundamental in that the liability imposed is inherently excessive. 1% of railway capital normally comes to above 5 crores of rupees. Our railways have not yet attained the stage of a regular and large return. The capital as per the books, on which the 1% is reckoned, is larger than the real net value of the earning assets at present. It is slightly fictitious, partly because of the extravagance in construction of railways and partly because of the shrinkage in value of railways plant in some areas. And due allowance is not made for these facts in imposing the liability of 1% on capital invested in railways.

There are two more points of criticism on the Convention. In any line of business, it is an imperative maxim that the provision of reserves should take precendence over any other charge on profits. The Convention, on the other hand, makes the 1% contribution a first charge on the surplus and attaches secondary importance to the railway reserves. We could well conceive a typical circumstance of a series of years with surpluses just enough to pay the 1%, not a pie being added to railway reserves all along and the railways

becoming not a pie stronger. The Convention had even a positively bad influence on the reserves, for it implied their depletion in the years 1929-30 to 31-32, for the sake of the contributions. Thus the Convention is based on a fundamentally wrong principle of aiming at appropriation before, and often without and even from, the due provisions. It is like placing the cart before the horse.

There is a material difference in the administrative attitude towards railway reserves, in India and in Great Britain. The railway revenue is a result of rates and fares and any control over the one has an effect on the other. In Great Britain the standard rates are devised to ensure two things: a reasonable rate as well as a reasonable net revenue. The Government has always been defiinite that the railway surplus should be subject to a limit.* But the Indian Government has stopped with fixing the maximum and minimum for every class. A limit on the net revenue, similar to that of Great Britain, has never yet struck them as necessary. As a result, we have the Convention wihch emphasised so much on the lower limit of the surplus, which should always be exceeded and was disapprovingly silent about the upper limit. In normal times, this shortcoming was never felt; but the possibility of its abuse is more than brought to light at the present time.

The Railway Convention should in our opinion be replaced by a fairer rule of division, more flexible in practice. War has brought about a radical fortune to the railways and the surpluses are reaching exceptional heights. The Government has gradually grown more interested in bidding a much larger share than the Convention would countenance and seeks to affect the division between Railway Reserves and General Revenues in the greedy ratio of 3 : 1.

*Sec. 59 of the Railways Act 1921 empowers the Rates Tribunal, in case of surpluses over the Standard Revenue, to "modify all or any of the standard charges and make a corresponding general modification of the exceptional charge of the company so as to affect a reduction of the net revenue of the company in subsequent years to an extent equivalent to % of such excess."

The Government never exempted the railways from the contribution in the years 1929-30 to 35-36, when they were really unable to fulfil their obligations. The arrears, as they were called, have been extracted to the last pie, together with interest for the outstanding period. One should expect that the Government which held to its guns in those bad days for the railways should follow the same Convention even in their good days. But they have adopted a new scheme of division which gives them greater advantage.

The next question at hand relates to the propriety of the utilisation of the present surpluses as per the newly embraced ratio of division. It can be studied, for clarity's sake, in its two aspects: utilisation during the war and after the war. At the present time there is not much of a chance for re-investment of these funds with the object of increasing traffic of revenues. Nor can it be immediately spent on any development work. Excepting the necessary additions and re-arrangements at over-worked stations or on over-worked sections, nothing of great significance need be or can be undertaken just now. But the surpluses which are being realised year after year should only prevent the authorities from raising rates, because raised rates would directly increase the surpluses in an unlimited degree. This is the very principle incorporated in the British Railways Act, already noted above.*

Of greater importance is the specification of the present surplus for future purposes. Even on the Transport Member's own authority, the post-war days are bound not to be encouraging for the railways. The railways will be faced with an excessive stock of cheap motor vehicles, manned by a large fleet of cheap drivers; the coasters are sure to come to their own; and it is probable that aeroplanes too will become a serious problem for the railways. Add to this the fact that war-bred prosperity might come to a close and railway traffic, more than anything else, will go down manifold. The railways will be too illprepared for these contingencies, particularly because the rail-

***Page 3, foot-notes.**

way plant will have been completely worn-out by then. This inherent handicap, in conjunction with alround competition in transport and fall in traffic, is a grave, but certain, prospect against which they have to provide before it is too late.

It is with this purpose that the railways should emerge from war with a large unappropriated surplus, in the form of so many reserves. The primary need in the postwar days is for a thorough over-hauling of the railway plant, by affecting repairs and replacements which are long over-due. It is needless to stress on the wartime postponement of railway maintenance. The following table impresses us with the declining trend of maintenance, in physical terms, coressponding with a simultaneously rising trend of service and revenue.

ROLLING STOCK UNDER OR AWAITING REPAIRS AND VOLUME OF SERVICE DONE.

Particulars	1938—39	1939—40	1940—41	1941—42
% of Engines on line	† 5·63	5·31	5·08	5·10
	* 10·2	11·1	10·7	10·6
% of Carriages on line	× 6·98	6·98	6·62	6·36
	* 1·83	1·99	2·15	2·42
% of Wagons on line	† ·87	·82	·77	·77
	* 4·07	4·29	3·82	3·47
Passenger miles (mills.)	18,072	18,522	19,221	21,298
Vehicle miles ,,	1,669	1,639	1,675	1,737
Net ton miles ,,	21,463	23,493	24,559	27,351
Wagon miles ,,	2,782	2,026	3,014	3,314

Traffic is abnormally large; service provided is substantially more; but maintenance is postponed to a future date, partly because the rolling stock can not be withheld from service except for very necessary repairs and mainly because replacements are impossible due to the scarcity of parts and other equipment.

*In sheds and transportation workshops.

†In mechanical workshops.

As early as 1937 the Wedgwood Committee pronounced that a Depreciation Fund of the Indian railways was far too unsatisfactory. Later times have presented a fall in the value of railway lines, especially some branches, in certain areas. which require to be substantially written off. Radical post-war improvements in the arts of transport are a sure probability which further necessitates a large provision for obsolescence of our railway plant. And more than anything, the high prices of all railway materials in the immediately post-war years, will make the prompt replacements an excessively costly job. The present provisions, based on past calculations, namely a (?) % of former book values of assets, may be too inadequate in the face of all these circumstances. The Transport Member has realised the need for an extra addition to the Depreciation Fund and set apart another 4 crores for 1943-44. But such a step should have been taken much earlier; and it may not be wrong for us to argue for a larger fund as a strong bulwark against the postwar contingencies.

Though an adequate Depreciation Fund is the first thing to be built up from the present surpluses, which are just a result of excessive wear and tear to the railway machine, it is further necessary to take advantage of this providential surplus in steadying, if possible, the future returns from the railways. It is again a principle of prudence with every businessman that he should build up a substantial reserve for purposes of dividend equalisation. The ideal of commercial investment is not only profit but regularity of profit. The Indian railways have always failed to satisfy this basic principle of business. Its greatest advantage lies in the fact that it minimises, if not eliminates, all chance of profit fluctuation, which is a cause of disturbance in business in general. It encourages a steady flow of capital into the industry, in anticipation of a fairly realisable return. And it breeds in the railways a sense of independent existence, which holds them from looking to the Government for intermittent help. More than anything else, it seeks to ameliorate railways from

subordination, in the words of Lord Curzon, "to the exigencies of our general financial position."

Desirable as it is, the Fund has not yet reached even the conservative limit of Rs. 30 crores, laid as imperative by the Wedgwood Committee in 1937. Considering all the post-war tendencies of traffic and transport, one has necessarily to contend that the reserve requires to reach a much higher figure. It is not only fair but logical that the present surpluses should be partly earmarked for this purpose.

We shall next turn to the development work that is to be undertaken by the railways in post-war days. The Transport Member himself could appreciate that it covers the construction of locomotives and boilers in India, amenities of travel, staff welfare work, improved handling of traffic, participation in road services etc. These are not inexpensive or low-priced items of the post-war agenda, even on his own admission. It is in the nature of deferred expenditure, which cannot be recovered even partly in the initial years. The fructification of investment in transport implies a time lag, and it is necessary that the railways should be able to spend money without immediate expectations. It is impossible then to look to each year's surpluses for these purposes. The railways should make hay while the sun shines and provide for the rainy day.

Railway rates may have to be reduced to meet outside competition and also to stimulate falling or fresh traffic. Traffic soliciting campaigns have to be intensified. Public relations, very badly damaged nowadays, should be improved. Traffic handling facilities should be provided in great multiplicity. Road services themselves may have to be undertaken, as a means of self-defence and as a matter or transport co-ordination. Motor trucks will have to be purchased in large numbers, with this object in view.

As we agree on the need for large expenditure in all these directions, the question prompts itself whether it is not proper to draw these sums from accumulated reserves, instead of drawing them

from loads or a fresh capital issue. It speaks volumes of the financial strength of an institution if the net worth of the assets is much more than the book value of capital. This happens only as a result of re-investment of accumulated profits. These are days of unprecedented profits and it is only prudent that a substantial part of them should be specified as a Reconstruction Fund.

To conclude: the provision for excessive depreciation, the accumulation of a General Reserve and the building up of a Reconstruction Fund are the triple responsibilities of the Government. These charges should take precedence over all others on railway surpluses, including the Government share itself.

A LETTER FROM J. E. CAIRNES TO W. S. JEVONS

By

A. N. AGARWALA

The following letter was written by J. E. Cairnes to W. S. Jevons shortly before the former's death. Towards the end of his life, Cairnes had grown extremely weak. "The disease from which he suffered", writes Dr. L. L. Price, "was one of which the intensity was constantly growing, and it was impossible to foresee the full extent. It was a malady of the most discouraging nature. Joint after joint was attacked, and the movement that could barely be effected one month was not feasible the next. First Cairnes would walk, we are told, with the aid of crutches; then he would be wheeled in a chair; then the shaking of the chair would become intolerable, and he would only be carried out now and again into his garden. At last even this was abandoned, and for some time before his death he nēver left the house at all. He was gradually reduced to a state of helplessness more complete than that of an infant". It was in such a state that Cairnes, "the last of the English classicists," wrote the following letter. In this he mentions that "for days together I have been unequal to the exertion of dictating a letter." In this period of great physical suffering, Cairnes turned out his largest works. And he also preserved, to quote from Dr. Price again, "such 'charm' of conversation, 'vivacity, and humour' that his friends used to reserve their choicest jokes for him, feeling sure that he would evince the keenest relish in them, and looked forward to their talks with him as some brightest moments of their lives." Cairnes was a very attractive personality and his death in 1875 at the early age of fity-two removed a greatly respected and loved figure from the economic world. It was in the year of his death, when his terrible disease was at its worst, that he published the revised and enlarged edition of his excellent work, *The Character and Logical Method of Political Economy*, to which he refers in this

letter. He had his differences with W. S. Jevons which have also been touched.

This letter, written about seven decades ago, was found in original in a pile of old and waste papers with a local second-hand books' seller. How did it find its way to this place cannot be easily understood. Perhaps it came to India along with Professor H. S. Jevons, son of Professor W. S. Jevons, and it must have been from him that it somehow found its way to the said shop. The letter itself is reproduced below :]

RASAY,
KIDBROOK PARK ROAD,
S. E.

9 May 1875

My Dear Jevons,

I received your letter some days ago and should not have delayed so long in returning you my warm thanks for the very kind and flattering terms in which you have spoken of my recent publication, if it had not been that my health has, of late, been so miserable that for days together I have been unequal to the exertion of dictating a letter. There are few persons living for whose judgment on a question of logical method I have a higher esteem than for yours; and as I was far from feeling certain that I should have your adhesion to even the main ideas of my doctrine, I am the more gratified and encouraged by the very frank adhesion you have given. Of course, I am quite prepared for a good deal of dissent on subordinate points, not to speak of our unfortunate disagreement as regards the feasability of mathematical treatment. But, in accepting my views as I understand you to do, that the premisses of Political Economy are not "unverfied hypotheses" (as some professors now are industriously seeking to make the world believe), but well-established facts of man's moral and physical nature and of his environment in world, and in holding that the science is to be developed deductively from these premisses with such aid as induction, in the

circumstances of the case can afford, in accepting these two positions you accept everything that I much care to contend for. You will find a new chapter on Definition, and I shall feel particularly glad to know how far you can agree with me in the view I take of this question. It has been quite laterly discussed in the Political Economy Club, and from what I hear without throwing much light upon the subject. Thornton's Essay in the Fortnightly on the Definition of Wealth (which by the way, was highly praised in the debate at the Club) seems to me to illustrate nearly every fallacy into which it is possible to fall in connection with this question.

I am very glad to hear that your inquiry into prices is making progress. The results analysed and discussed by you cannot fail to throw much light upon the whole subject. I trust you mean to carry the inquiry beyond the year '66. The most surprising feature to me in the figure you have kindly sent me is the slight advance of prices in New South Wales—considerably less, it would seem, than 50 percent., I have no knowledge of the special influences acting on the Newfoundland markets.

Again thanking you for very kind letter, I remain,

Very truly yours,

J. E. Cairnes

ECONOMIC CONDITIONS IN BARODA AND HYDERABAD STATES

[A BIBLIOGRAPHICAL NOTE]

By
A. N. AGARWALA

1. In recent years a good deal of attention has come to be focussed on the problems and affairs of Indian States. Since the talk of an India Federation, in particular, the British Indian interest in them has overgrown mere inquisitiveness in the intra-State matters ; and the likely relationship between British India and Indian India at a future date which, let us hope, will not be very remote has come to the foreground. This political development has its economic counterpart which while presumably coming in the realization and recognition of the majority of Indian economists still lies beyond the pale of their studies, with the exception of a few young economists to whom the study of the economic problems of these States is proving an inviting diversion. No wonder, then, that there is at present a good deal of misunderstanding regarding these regions ; and their economic systems and developments are supposed to be adquately summed up in one word, *backwardness*, only with a few exceptions. It is not properly understood that these States have also awakened to the spirit of the times and have for some time past been taking definite steps in the direction of improvement in the industrial, commercial, agricultural, labour, reconstruction and other aspects of economic life. Indeed, some of these States appear to leave British India behind them in the race for progress. This line of study is in need of much greater attention than what it has received in the past. In particular, since the publication of the Industrialists' *Plan for Economic Development of India*, planning has come to be regarded as within our financial means ; and only if it can

be made within our political means as well, we might have an economic plan for the entire India in a non-too-distant future. In such an atmosphere, thought is likely to be bestowed upon the degrees of uniformity in the economic conditions and awakening in British India and Indian States, with a view to ascertain how far can they be roped in a common plan, and, in particular, how can British Indian Provinces, Central Government and these States march in unison right from now. In the new atmosphere, the need of the study of economic conditions in Indian India has become much greater.

2. Of the numerous Indian States, big and small, Baroda and Hyderabad, which we shall consider in this Note, are two of the important and progressive ones. Baroda State consists of five territorial blocks which lie scattered over Gujrat and Kathiawar. Its total area is above 8,000 square miles and its population is 28·6 lakhs. The density of population varies from district to district, being 418 to the square miles in the Baroda district and 152 in Okamandal. The average density for the whole State is 349 sq. miles. Urban and rural population bears the ratio of 1: 4. The rural population lives in 3,000 villages of which about 1,400 have a population of more than 500. There is a distinct tendency towards greater urbanisation of the population, which is clear from the increase in the number of towns from 50 in 1931 to 64 in 1941. The origin of towns does not necessarily lie in the growth of new industries; in many cases a village acquires distributive importance and rises into a big towns. The State is predominatingly agricultural, its 64·6 per cent of the total population being dependent on this single occupation. Industries support only 13·3 % of total population, while 8·1 % is engaged in trade. Professions and liberal arts give employment to 3·5 % of the population and transport to 1·9 %.

3. The State of Baroda has been following a progressive policy with regard to industries and it is now an important industrial region of the country. Textile mills occupy the first place in

this regard and whereas in 1921 they employed only 8,130 factory operatives, this number has now increased to 27,481. Chemical industries come next and they give employment to 4,455 operatives (1941) as against only 201 in 1921. The State is also known for building industries including cement, stone quarries, bricks and tiles, which employ 1,576 operatives as against 143 in 1921.

4. Evidently this State is an important economic region of the country and deserves serious study. The Baroda Government have been publishing valuable material regarding these economic conditions; and of this the most important is perhaps the *Baroda Administration Report* (for 1942-43). It has been publised by the Baroda State Press and priced at Rs. 2-4-0 only. It deals with every aspect of the life of the State, but the matters of special economic importance are finance and accounts (Ch. IX), land revenue (Ch. X), agriculture (Ch. XV), co-operation (Ch. XVI), and commerce and industries (Ch. XVIII). Important and valuable information has also been furnished on such tepics as statistics, insurance, electricity, fisheries, forests, public works, State railways, education and public health. There is also an excellent chapter on the economic effects of the war on agriculture and industries and civil supplies, which also shows the achievements of the 'grow more food' campaign. This publication is a storehouse of first-hand information and is bound to be extremely useful to a student of the economic life of this State.

5. No less important and information-yielding is the small but useful publication entitled as *Statistical Abstract of the Baroda State*, the latest copy of which covers figures from 1932-33 to 1941-42. It contains only 124 pages and is priced only Rs. 1-2-0. It has been published by the Baroda State Press under the authority of its able Director of Statistics of the State, Mr. A. C. Mukerji. The *Abstract* contains no less than 101 tables on a wide variety of subjects and generally follows the *Statistical Abstract for British India*. There is a short and useful note to

these tables in the beginning. The first thirteen tables deal with area and population and are useful for introductory information. The public finance of the State is the subject of a large number of tables, from 40 to 58. Statistics relating to agriculture—area under irrigation, crops under cultivation, live-stock, ploughs, forests etc.—are given in six tables, from 74 to 79. There is important information bearing on industries, factory inspection, joint stock companies, current prices, vital statistics, sea-borne and land trade, irrigation works, railways and motor vehicles communications and co-operative societies. The tables are systematically arranged and competently edited.

6. Another publication which a student of the subject would do well to consult is the *Annual Report of the Department of Satistics*, the latest copy available being for the year ending 31st July, 1941. It contains 96 pages and is moderately priced at Re. 1-4-0. The first ten chapters contain descriptive as well as satistical matter and are devoted to Administration, Commercial Intelligence and Statistics, Joint Stock Companies, Certified Auditors, Benevolent Societies, Insurance Companies, Partnership Firms, Development Board, Other Activities and Miscellaneous. The relative satistics are furnished in eight important tables given in the shape of Appendices.

7. All thes three publications give, more or less, full outline of the economic life of the Baroda State. Turning to the State of Hyderabad, we find that it is about 83,000 square miles, *i. e.* more than ten times of the Baroda State, while its population is more than 144 lakhs of whom only 16 lakhs live in towns and the remaining 128 lakhs in villages. The density of population varies between 8,809 persons per square mile in Hyderabad City and 141 in Warangal, the average for the whole the State being only 175. The tendency towards greater urbanination of population is very distinct here as well, as is shown by the fact that the number of town and cities is now 133 as compared with 89 about a decade before. The occupation of the people of the State, as in the rest of India, is predominatingly agricultural and about 57% of population is

dependent upon this single occupation. But the industrial development of the State has been rapid and there are now 804 large industrial establishments in the State, *i.e.* those which employ on an average not less than 10 persons a day or some motive power. The average number of persons employed daily is above 65,000. The State includes textiles, engineering, minerals and metals, food, drink and tobacco, chemical, dyes, etc., paper and painting, and other like industries. The labour legislation of the State is very comprehensive and sufficiently progressive, though there is need of making it more uptodate in the light of recent advances in India and abroad.

8. A short introductory account of the Hyderabad State can be had from a small but attractive booklet entitled as *Some Aspects of Hyderabad* which was issued by the Information Bureau, Hyderabad-Deccan, in 1941, and costs only eight annas. It first describes the geographical features of the State, which is followed by a brief historical sketch of the ancient, mediaeval and modern periods. Progress made in recent years is next detailed ont while two useful chapters, though not of economic interest, on the Osmania University and Achaeological Monuments have been given.

9. But one anxious to have a thorough, concrete and statistical study of the economic conditions of the State, should no doubt look to the bulky volume, *The Statistical Year Book.* The latest issue of the Year Book relates to the year 1349 F. (1940 A. D). It covers as many as 1,275 pages and even then the price is as low as Rs. 5 only. It has been prepared by the able Director of Statistic and Census of the Hyderabad State, Mr. Mazhar Hussain, and is a monument of patient compilation and laborious presentation. Of special importance to the students of economics are, of course, the sections bearing on area and population ; revenue and expenditure ; land revenue ; forests ; custom ; excise ; mines and quarries ; finance ; mint ; post office ; vital statistics ; agriculture ; live stock ; co-operative societies ; public works ; irrigation ; railways ; motor transport ; air transport ; trade ; joint stock companies ; bank ; insurance com-

panies; price and exchange; wages and labour; industries; and miscellaneous. The information contained in this volume is vast and highly useful. But we feel that its descriptive part is fragmentary and rather weak. If some of the matter could be made to yield room for the more useful descriptive and analytical discussions, the value of the *Year Book* would be considerably increased.

10. For getting an idea regarding economic developments in recent times, one should consult two other important books, *viz.*, (i) *A Selection of Press Notes and Communiques* issued by the Information Bureau, Hyderabad-Deccan, in July 1942; and (ii) *Report of the Administration for Year* 1350 *Fasli* (*i.e.* 6th October, 1940, A. D. to 6th October, 1941, A. D., the latest available). The former gives an idea of "the wide range of the Government's nation-building programme and the policies pursued by them on various questions of public importance." In the words of the Director of the Information Bureau, Mr. Habib-Ur-Rahman, "as a supplementary volume to the series of administration reports issued under the authority of the Government, this compilation ought to prove interesting and instructive to all students of Hyderabad problem." It has been divided into three sections of which the last one dealing with "Questions of Economic Interest" would be found of use by students of economics. These communiques and press notes deal with the Moneylenders' Regulation, Debt Conciliation Regulation, Agrarian Laws, Agricultural Research, Remissions and Suspensions in Land Revenue, Irrigation Projects, Land Mortgage Act, Rural Banks in Hyderabad, Insurance Benefits to Villages, Cottage Industries, etc. But of course the more important source of information for current developments is the *Report of the Administration* mentioned above. It is divided into ten chapters of which of special economic interest are those dealing with collection of revenue; communications; public health; finance; and some sections of the Miscellaneous Chapter.

11. The Government of Hyderabad have recently issued another publication, viz., *Rural Reconstruction in Hyderabad*, 1942, which deals

with the praise-worthy reconstruction activities pursued by the State for some time past in rural areas. The opening words of this interesting book describe the aim of rural reconstructions as follows : " The elaborate machinery set up to cope with the modern requirements of the countryside is a measure of the realization by the authorities that the prosperity of a State lies in its smiling fields rather than in its stately edifices, and in a contented peasantry rather than in its patrician ranks." It goes on to show the useful work done by various reconstruction societies—co-operative central and local boards, district and *taluk* council of rural reconstruction and other like bodies. The work done with regard to the improvement of agriculture through a modification of land revenue policy, research, experiments, demonstration and propaganda and marketing arrangements, has been lucidly described and is followed by a description of the efforts made to improve cottage type of industrialism. There are also useful chapters on the co-operative movement, rural debt legislation, public works, means of communication, public health and education. The publication clearly shows that the State of Hyderabad is far more progressive in these directions than some of our British Indian Provinces. In order to keep abreast with current developments, one should also look up regularly the very useful monthly publication, *viz.*, *Hyderabad Information.*

12. All such highly informative literature bearing on these two States is at present generally neglected and can be made to yield valuable results. It can, no doubt, be supplemented by other important literature concerning these aspects of the matter. Such a study would surely go to show the great strides that are being made in economic spheres by these States which must be regarded as a part and parcel of the body economic of this country and not as separate landscapes cut off from British India. This viewpoint is, of course, essential to maintain while thinking in terms of planning for the whole of India.

REVIEWS OF BOOKS

INDIAN ECONOMY DURING THE WAR by Dr. L. C. Jain. Published by the Civil and Military Gazette, Ltd., Lahore, 1944. Pp. 139. Price Rs. 3-4.

At a time when the progress of this total war is bringing about profound changes in our economic life and the atmosphere is laden with talks of post-war developments which must evolve and emerge out of the womb of the war-shaped economic system, there is great need and utility of the books meant to deal with the effect of the war on the economic mechanism of this country. Such a work is of even greater importance and usefulness if it is written from the pen of a leading and able economist of the country. The persent book which fully shares both these features is, as such, doubly welcome.

The book contains the substance of six Banaili Readership Lectures on Indian Economy during the War, which the author delivered in the University of Patna in 1942 and 1943, which have since been recast so as to be brought uptodate. "The results of this study," says the author, "have been presented in the hope that they may possibly serve to stimulate further investigation with a view to clarifying the varied issues and aiding in the ultimate solutions." We find that these objectives have been very well accomplished in this book.

In the first chapter dealing with Indian agriculture, Dr. Jain vividly and neatly portrays the repurcussions of the war on the various aspects of this largely followed primary industry. The problem of agricultural surpluses has been lucidly treated and the author finds it "exasperating that at a time when India was in sore need of imports of foodgrains from abroad, exports from the country should have been permitted." He is even more critical of profiteering by governments in the gravest food crisis of the recent times, and is "sad to observe that for human greed and governmental follies combined, the Bengal famine will be hard to beat; it has been rightly described as a man-made disaster." (p. 17). Dr. Jain deplores, we believe quite rightly, the futility of the more spectacular 'Grow More Food' campaign and emphasises the need of solid help to cultivators and efficient administration in price control and rationing.

In the second chapter on Indian industries, the author clearly and succinctly details out the major developments in iron and steel, cotton mill, jute, sugar, paper, cement, tea, leather, small-scale, shipping and aeroplane industries; and is not satisfied with the tardy pace of industrial expansion which has been of the order of 35 per cent. only over the pre-war level. "Nature had intended for India the role of a big industrial country and the *second* World War was Nature's

second reminder, as the first had gone unheeded." (P. 28). But "the Government failed to make the most of the unparalleled chances of building up new industries" which "can only be regarded as the misfortune of India and of the whole world." (P. 29). There has been no "serious and scientific attempt at mobilization of the industrial resources of the whole country", (p. 51) and only if the Government acquit themselves creditably in this regard, they would soon find that "Indian workers are also capable of doing miracles in industrial production."

In the third chapter on Indian Trade, the author gives proper thought to wartime changes in the imports, exports, balance of trade and direction of trade; and discusses control arrangements regarding imports, exports and exchange. Inland trade is also considered in this connexion. With regard to the future foreign trade policy, Dr. Jain very rightly states: "A measure of flexibility in India's foreign trade policy will be necessary to smooth out the process of adjustment, but the aim of such policy should be to conserve as many gains made during the war as possible and recoup most of the losses." (P. 70). The Indian money market is next considered and the effect on composition of the rupee, scarcity of small coins, the vital issue of inflation, banking expansion and managing technique, etc., all receive due attention. Dr. Jain regards the present state of currency expansion as definitely inflationary and the large number of evils it has brought in its train make him agree with Prof. C. N. Vakil's comparison of inflation to robbery. The location, capital structure and managing technique of new banks have been pertinently criticised and Professor Jain's remarks in this regard deserve serious attention. In the fifth chapter, the repercussions of war on the public finance of the country have been ably traced and all the important trends and tendencies have been adequately brought out. In the last chapter, the author gives his concluding observations and makes a case for a planned economy in this country on the basis of his valuable study.

The entire matter has been very ably handled and there is an impress of deep appreciation of the various war-time economic problems and of conflicting viewpoints thereon. The book is a model of clear thinking, penetrating grasp and neat style. It should serve as an ideal to some of our young economists who, more often than not, lose themselves in the mass of statistics, the compilation of figures and the collection of information. The book would, we believe, stimulate clear thought and go a long way in clearing the fog that so much wraps up our war-time economic problems. We recommend it strongly to our readers. The printing is attractive and get-up tidy.

A. N. AGARWALA

MODERN ECONOMIC PROBLEMS, Edited by Prof. Baljit Singh. Published by the Economics Club, D. A. V. College, Cawnpore. 1941. Pp. 173 † vi. Price Rs. 2.

Introducing this "Co-operative Survey" by the numbers of the Economics Club, D. A. V. College, Cawnpore, Principal K. P. Bhatnagar stresses the need for factual surveys "guided by that incessant search for truth, without which no scientific edifice can be built" (P. 8) in our country. The contributors to the book under review have this very commendable objective in view; and it must be said to their credit that, in spite of the limitations of quantitative thinking in Economics, they have succeeded in their attempts to a very considerable extent.

The articles are grouped under six headings : General Principles, Trade and Industry (in India), Labour, Public Finance, Agriculture and Co-operation. Of the three articles in the first section, Mr. M. P. Mathur's elucidation of the problem of "Static and Dynamic View of Economic Phenomena" appears rather sketchy. One can very well appreciate the difficulty of tackling the problem in so short a compass; but that cannot be an excuse for the curious misrepresentation of Marshallian analysis. There is an essential difference between the Clarkian "Stationary State" and the Marshallian "Static State". As Prof. Robbins points out, "In the Clarkian State, population and capital are to be constant—they are *not allowed* to vary. In the classical constructions, population and capital are constant, but this is because, together with wages and interest etc., they have reached a position of rest ". It is in this process of attainment that profits appear as symptoms of disequilibrium. Mr. Mathur's accusation of Marshall seems to be unfair and unconvincing. Mr. Pandey's examination of "The Malthusian Theory of Population" is lucid and precise. One wishes he had widened the scope of his paper a little, and included the optimium theory of population as well. Writing on "Economic Planning", Mr. S. P. Mathur covers a wide field; but he touches only the fringe of the purely theoretic aspect of economic planning.

It is difficult to do justice to each of the articles under the remaining heads in so short a review. We must be content with just a rapid examination of the main points. Based on a factual study, Mr. P. S. Nayar traces the cause of the sugar crisis (in 1939-40) to overproduction of sugar cane and sugar and the abortive attempts of the Indian Sugar Syndicate to maintain a minimum selling price, ignoring completely the nature of the demand for sugar. The demand for sugarcane increases only when the potential substitutability of " *Gur* " is reduced; for, as Mr. Ram Dass points out, the *per capita* consumption of " *Gur* " is 27·1 lbs. as against 7⅓ lbs. *per capita* of sugar. This can be acheived only when the State intervenes in matters of production and marketing of sugarcane, "*Gur*" and sugar. Mr. Srivastava also brings out this point clearly in his analysis of the Sugar Industry in the U. P.

COTTAGE INDUSTRIES AND THEIR ROLE IN NATIONAL ECONOMY, by Prof. R. V. Rao. Published by Vora & Co., Bombay. 1944. Pp. 50. Price Rupee 1.

The brochure contains four talks given by the author at the Nizam's Broadcasting Station, Hyderabad (Dn.). In the course of these talks, Prof. Rao has rightly stressed the importance of reviving Indian cottage industries with a view to solving the problem of unemployment and infusing new life into our villages. He has also pointed out various difficulties in the way of their resuscitation. The author has added a fifth chapter in which he pleads for a new outbook in dealing with economic problems. At the end, there is a valuable appendix on the activities of the All-India Village Industries Association, Wardha.

Prof. Rao's brochure is a welcome addition to the growing literature on, what may be termed, Gandhian Economics. The author has taken special care to clarify Gandhiji's ideas on machinery and industrialization. He has also discussed the desirability of introducing hydro-electric power for increasing the productive efficiency of cottage industries.

It would have been better if Prof. Rao had written a more exhaustive treatise on this important economic problem. However, as it is, the brochure deserves a careful perusal.

SHRIMAN NARAYAN AGARWAL

THE INVESTMENT AND FINANCE ANNUAL 1945. Edited by Narinder Nath Seth. Post Box 110, Kashmere Gate, Delhi. 1944. Price Rs. 2.

This *Annual*, like the Annuals of other commercial and financial journals of this country, contains a good deal of interesting and highly useful information bearing on various current problems. The articles are good and cover a wide range. Prof. Brij Narain writes on *The Agricultural Problem* in which, *inter alia*, he criticises the Industralists' Plan and suggests that the mechanisation of agriculture should be properly investigated. *Postwar Agriculture* as been viewed by Mr. P. S. Narayan Prasad from planning standpoint in a refreshing manner. There is, then, a path-breaking article on *Planning and Postwar Trade Prospects* by Mr A. N. Agarwala in which the whole question of planning in this country has been approached from the realistic angle of market-availability in post-war years. He shows, in forceful language and with close logic and argumentation that agriculture should receive adequate attention in an economic plan for this country and we agree with his conclusion that " it would, indeed, be unfortunate if......in the single-minded aspiration for industrial expansion, we forget the handicaps of such expansion as well as the business

opportunities with respect to agriculture, and lose both." Dr A. K. Dasgupta discusses the problem of *The Location of Industries* while Prof. B. R. Shenoy has contributed a well-considered article on *The Sterling Asset. Road Transport in Postwar India* by Mr. R. G. Sarien and *Inflation and Gold Sales* by Captain A. N. Bali are other interesting features. There is a wealth of information and contributions on a large variety of subjects which are sure to interest the reader. We recommend the *Annual* to our reader's attention.

S. J.

AN INTRODUCTION TO POLITICAL ECONOMY by V. W. Balden. The University of Toronto Press. Toronto. Canada. 1941. Pages 299 Price not stated.

AN INTRODUCTION TO ECONOMIC THEORY by S. N. Sen and S. K. Das. Published by Book Land, 1 Sanker Ghose Lane, Calcutta. Fifth Edition. Price Rs 5.

The first book under review is not meant to be either an original contribution to the subject or a comprehensive introductory book. It is frankly a supplementary book meant for beginners reading in the author's own class or in other Canadian institutions. This explains what might appear to be a sketchy and discontinous character of the contents of the book. The author first discusses the basic conditions of social wealth and then takes up the price system, which is explained first with reference to a simple handicraft stage subsequently limited with modern conditions. Though the author does not make an attempt to discuss the theory of price fixation, he has discussed its applied aspects in a masterful and descriptive style and with a wealth of details culled from the histry of the Great War I. The subsequent chapter is on Population, an abrupt change in the continuity of the subject-matter, which is briefly written and is mainly descriptive of the conditions in the United Kingdom, Europe, U. S. A. and Canada. The author next discusses wheat and newsprint in Canadian economy in two subsequent chapters which appear to have been rather thrust in. "Combines and Public Policy" and "The Wage-earner in Modern Industry" are the next two chapters. The book concludes with a brief discussion of the growth of the collectivist trend. The contents of the book being given, it must, on the whole, be recognized as a good introduction to the subject. It is, in fact, valuable for bringing the reader into contact with the current thought on certain topics of applied Economics and though it has been designed primirily for Canadian students, it would no doubt be useful for students in other countries as well.

The other book by Messrs Sen and Das is an evidently a successful book on economic theory and has passed into

five editions. It is a matter of gratification that interest in economic theory in this country is growing and younger generation is being increasingly drawn to it. If this tendency happily continues, the lop-sided development of the economic thought of this country would soon be remedied. The present book would make its appeal to students, for whom it is primarily written, who can conveniently get an idea of the more important respects in which the classical theory has been modified in recent years. Though we do not hold a brief for spoon-feeding, we do feel that the book succeeds in the object which it is meant to fulfil and would be a hot favourite of the students community in this country who do not know from where to study developments in economic theory beyond Marshall in the short time at their disposal.

R. G. S.

POST-WAR CONSTRUCTION by D. Pant, Published by Kitab-Mahal, Allahabad, 1944. Pp. 165. Price Rs. 2-8.

In this book, Dr. Pant does not look at the problem of construction from the viewpoint of a pure economist or a pure politician, but examines it from all the different angles from which it should, in his opinion, receive attention. He first shows the reasons for the use of the term "construction" in preference to "reconstruction" and then deals with "Axioms and Postulates." He next goes on to examine the politico-economic, socio-psychological, educational and administrative bases of construction. The problems of reconstruction and maintenance, and application are also given attention. The author says that "the conditions which I visualise are the conditions of the remote future;" but we think that they relate to the very fundamentals of the "construction" work and are, as such, of immediate pertinence and should be welcome. Dr. Pant is terrifically progressive and the ideas that he has expressed are sure to accord with the psychology of the younger generation. The independence of the author's view is remarkable. The chapters are crisply written; and the style and language are out of the common rut. The economic aspect of "construction" receives only brief treatment; but the non-economic matters show the groundings of an economist. The printing is good and the make-up tidy.

BOOKS RECEIVED

ANNUAL REPORT OF THE CHIEF INSPECTOR OF MINES IN INDIA for the year ending 31st December 1941. Published by Manager of Publications, Delhi. 1943. Pp. 97. Price Rs. 2-4-0.

BHARATIYA VIDYA, Journal of the Bhartiya Vidya Bhavan, Vol. IV. Part II. May 1943. Published by Bhartiya Vidya Bhavan, Bombay. 1943. Pp. 127 to 258.

[To be reviewed]

BEVERIDGE EXPLAINED. By G. D. H. Cole. Published by Messrs Vora & Co. (Publisher) Ltd., Bombay. 1943. Pp. 73. Price Re. 1.

[This small booklet explains in brief the Beveridge Report on Social Insurance in Great Britain. the method is persuasive and lucid and the treatment accurate and penetrating.]

CONTROL OF THE ELECTRICITY SUPPLY INDUSTRY. By K. V. Karantha. Published by the Author, P. O. Box, 156, Madras, 1944. Pp. 58. Price 12 as.

[This forcefully written pamphlet shows that of the three available agencies for handling electricity supply in India, *viz.*, local authorities, government and private enterprise, the last is the most satisfactory. The author, however, would like to see the formation of a superior body, which he calls Electricity Board, in each province, which should act as a watch-dog and the functions and membership of which he briefly suggests. The author knows his job fully well and his knowledge of electricity supply arrangements in foreign countries is thorough and enlightening. This is a very remarkable booklet and should be widely read.]

ECONOMIC DEVELOPMENT OF ENGLAND. By Dr. R. N. Dubey, Allahabad University. Published by Kitab-Mahal, Zero Road, Allahabad, 1944. Pp. 301. Price Rs. 5.

[To be reviewed]

ECONOMIC JOURNAL OF OSMANIA UNIVERSITY (Urdu). Published by Graduates' Club, Osmania University Allahabad.

[To be reviewed]

HISTORY AND PROBLEM OF INDIA CURRENCY 1835—1943. By D. K. Malhotra, Published by the Minerva Book Shop, Lahore, 1944. Pp. 270. Second Edition. Price Rs. 8.

[With the kaleidoscope of thoughts and events in the sphere of currency showing unusually rapid and quick change in recent years, the admirers of Mr. Malhotra's this excellent work must have been impatiently waiting for its second

edition which has now been released. And it would very well meet the expectations. The author provides within these covers a wealth of fresh material and information on currency questions. The problems of the rupee-sterling nexus, exchange control, currency inflation, war finance, price movements and controls, and sterling accumulations have been discussed in the war and post-war settings and have been ably handled. In the future outlook, attention has been paid on the topics of monetary stability, post-war currency plans and the future of the Indian currency. The new appendices cover dearness allowance, inflation and consumers' subsidies ; currency plans, sterling balances and Bombay Plan ; general budget (1944-45) ; and recent statistics. The account of events is faithful and concise, and conflicting views have been clearly and correctly exposed. Nobody who wants to keep abreast of the recent trends and tendecies in the field of Indian currency can afford to neglect this admirable and refreshing work. The printing and get-up are fascinating.]

INDIAN AGRICULTURE. By R. D. Tiwari. Published by Messrs. New Book Co. Hornby Road, Bombay. 1943, Pp. 420. Price Rs. 10.

[To be reviewed]

LEAGUE OF NATIONS : Transition from War to Peace Economy. Published by League of Nations. New Delhi. 1943. Pp. 118. Price 4sh. 6d.

[To be reviewed]

PEOPLE'S PLAN FOR ECONOMIC DEVELOPMENT OF INDIA. By B. N. Banerjee, G. D. Parikh and V. M. Tarkunde Published by M. N. Roy, General Secretary, Indian Federation of Labour 1944. Pp. 56. Price Re. 1.

[To be reviewed]

POVERTY OR PLENTY ? By M. N. Roy. Published by Ranaissance Publishers, P. Box 580, Calcutta. 1944. Pp. 156. Price Rs. 2-8-0.

[To be reviewed]

POST-WAR CONSTRUCTION. By Anwar Iqbal Qureshi. Published by Indian Book House, Abid Road, Hyderabad, Deccan. Pp. 32. Price 8as.

[To be reviewed]

REPORT ON THE WORK OF THE LEAGUE. 1942-43. Published by League of Nations, Geneva. 1943. Pp. 117.

[To be reviewed]

REPORT ON THE ECONOMIC SURVEY OF NINE VILLAGES IN GALLE DISTRICT by Dr. B. B. Das Gupta, Economic Adviser to the Ceylon Government. Published by the Government of Ceylon. 1944. Pages 44. Price not stated.

[To be reviewed]

SIYASAT. A Quarterly Journal in Urdu. Published by the Osmania University, Hyderabad, Deccan.

[To be reviewed]

SOCIALISM RECONSIDERED. By M. R. Masani. Published by Padma Publication Ltd., Bombay. 1944. Pp. 55. Price Re. 1.

[To be reviewed]

SOVIET RUSSIA : The Secret of her Success. Edited by K. S. Hirlekar. Published by Popular Book Depot, Bombay 7. 1944. Pp. 391. Price Rs. 6-8.

[To be reviewed]

THE POST-WAR DEPRESSION AND THE WAY OUT. By B. N. Shenoy. Published by Kitabistan, Allahabad. 1944. Pp. 159. Price Rs. 3.

[To be reviewed]

THE PRESENT FOOD SITUATION. By Anwar Iqbal Qureshi. Published by India Book House, Abid Road, Hyderabad, Deccan. Pp. 56. Price 12 as.

[To be reviewed]

THE TEN PENCE RUPEE EXCHANGE: A Problem for Post-War Reconstruction. By Prakash C. Banerjee. M. A. Published by Messrs. Students' Friends, Allahabad. 1944. Pp. 7. Price 3 as.

WAR RISKS INSURANCE ORDINANCES 1944. K. C. Ray. Published by Messrs. New Book Company, Hornby Road. Bombay. 1943. Pp. 147. Price Rs. 5.

[This useful and uptodate book on War Risks (Goods) Insurance Ordinance discusses the fundamnetal legal rights as applied to this insurance and gives a careful sectionwise commentary of the Ordinance itself. The practical application of the Ordinance presents several complications and difficulties, all of which have been clearly and accurately dealt with at length. Very little work has yet been done in this field of economic and legal study and we congratulate the author for making an illuminating beginning. The book would be found valuable by businessmen and industrialists in particular.]

THE INDIAN ECONOMIC ASSOCIATION

INFORMATION

The 27th session of the Indian Economic Conference will be held at Delhi under the auspices of the University of Delhi during the Christmas week of 1944. The exact dates will be announced later.

The subjects selected for the Conference are as follows :—

1. Transition from war to peace economy.
2. International economic co-operation.
3. Social security with special reference to India.
4. A current topic (to be announced later).

Members intending to submit papers on any of the subjects mentioned above are requested to forward them to the President, Dr. L. K. Hyder, Aligarh University, Aligarh, on or before the 1st September 1944.

In view of the paper shortage in the country, members are requested to make their contribution as brief a spossible. I am also to point out that the Executive Committee have decided upon the following sliding scale arrangement regarding recovery of the cost of printing of papers. The cost will be recovered from the members contributing papers and will be based on the following schedule :—

First 8 pages		free
On the excess of pages		
9 to 10	...	Rs. 2 per page
10 to 15	...	Rs. 3 per page
15 to 20	...	Rs. 4 per page
21 pages and above	...	Rs. 5 per page

The page will be the printed page of the Journal for purposes of calculation and contains on an average 400 words. It will be convenient if members will attach to their papers a brief summary.

V. K. R. V. Rao,
Hony. Secretary & Treasurer.

OFFICE-BEARERS OF THE

INDIAN ECONOMIC ASSOCIATION

For the year 1944

President : Dr. L. K. Hyder, University Professor of Economics, Aligarh.

Secretary : Dr. V. K. R. V. Rao, University of Delhi, Delhi.

Hon. Local Secretary : [To be notified later]

Members of the Executive Committee

Prof. Gyan Chand, Patna University.

Prof. V. G. Kale, Poona.

Dr. H. L. Dey, Dacca University.

Prof. S. K. Rudra, Allahabad University.

Dr. L. C. Jain, Punjab University.

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Dr. A. I. Qureshi, Osmania University.

Dr. B. K. Madan, Bombay.

Prof. C. N. Vakil, Bombay University.

Prof. V. L. D'Souza, Mysore University.

Prof. J. P. Niyogi, Calcutta University.

Dr. P. S. Lokanathan, Delhi.

Membership

The Indian Economics Association was founded in 1918 with the object of general advancement of economic knowledge. The membership of the Association is open to teachers and students of Economics and to such other persons as are interested in Economics in general or in special economic problems, if duly elected.

There is at present no entrance fee. The annual subscription payable by members is Rs. 12. This entitles members to attend all meetings and the Annual Conference of the Association and also to receive all issues of the Indian Journal of Economics for the year (1st June to 31st May).

INDIAN JOURNAL OF ECONOMICS

The Indian Journal of Economics—the organ of the Indian Economic Association—appears quarterly in January, April, July and October. The April issue is the Special Conference Number and contains all the papers read at and proceedings of the Association. Members of the Association receive the Journal free.

Applications for membership and further particular may be obtained from the Hony. Secretary & Treasurer : Dr. V. K. R. V. Rao, University of Delhi, Delhi.

Publications of University Teachers and Research Scholars, Economics Department, University of the Punjab, Lahore

By Dr. L. C. Jain, (University Professor of Economics):

1. Indian Economy during the War, Lahore, 1944.
   "This highly provocative volume on topical subject provides stimulating reading and deserves careful perusal by every nationalist and Indian economist. Dr. Jain is not anything if not critical. His arrangement of data is commendable and his criticism illuminating."
   —*The Amrita Bazar Patrika, Calcutta.*
2. Indigenous Banking in India, Macmillan & Co., London, 1929.
   "*It fills a distinct gap in Monetary Literature*"—
   Lord Keynes.
3. The Monetary Problems of India, Macmillan & Co., London, 1933.
   "*............The best book on Indian Monetary Problems ever written by an Indian,*"—The Economic Journal, London.
4. Reserve Bank for India, Lahore, 1933.
5. Report on the Effect on Ceylon of Textile Quotas and Preference Duties, Ceylon Government, Colombo, 1940.
6. Working of Protective Tariffs in India, Delhi University, 1941.

By Mr. D. K. Malhotra, (University Lecturer in Economics):

1. History and Problems of Indian Currency. 1935—1939, Minerva, Lahore, Second Revised Edition, 1944.
   "*Discussion of latest phases is characterised by clearness of exposition and an effort to weigh conflicting views and arguments.. ....The linking of the rupee to sterling, gold exports, sales of silver and ratio controversy are subjects which have been ably handled.*"—Prof. V. G. Kale, in "The Bombay Chronicle."
2. Tenancy Reform in India, Lahore, 1941.
3. Review of Indian Fiscal Policy, Lahore, 1943.

By Dr. B. K. Madan :

1. India and Imperial Preference, Oxford University Press, 1939.
   "*His book is reassuring evidence that India has at her command the services of economists who can render valuable help in advising on the way in which she should adjust herself to a new, and let us hope, better world*"—Sir F. Noyce (in the Economic Journal).
2. Some Aspects of Rural Economy in the Punjab, 1935.
3. Notes on the Sales of Gold in the Punjab, 1937.

By J. G. Narang :

Constituent Assembly—our National Demand.
"*I did feel it was a job competently done deserving commendation*"—Jawahar Lal Nehru.

By L. K. Sahgal :

A Survey of the Marketing of Cotton in the Punjab, 1938.
"*A model of practical research*"—Prof. Brij Narain.

Indian Journal of Economics

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THE FUTURE OF GOLD *VIS-A-VIS* CURRENCY PLANS—II

By

KASTURCHAND LALWANI
Rajendra College, Faridpore

III

PLANS FOR INTERNATIONAL CURRENCY CONSIDERED

No finality has as yet been arrived at regarding the currency plans nor is it possible to do so till the war is over and till it is decided without doubt as to who are going to mould the future world order. But one thing is certain. Within such a short time, there have been too many currency plans that one gets oneself lost in them.

The aim of all these plans, as aptly summarised by Joan Robinson (*E. J.*, June-Sept. 1943), is to provide a system of stable exchanges which is less likely to cause needless misery to the world and is less likely to disrupt itself under the presseure of its own operations. The means proposed are three-fold : first, to provide each participating country with a substitute for gold reserve ; second, to undertake measures to restore equilibrium, when necessary, by consultation between the nations concerned and to suggest measures of a less torturing kind than those imposed by the gold standard ; and third, to give some degree of reality to the theoretical symmetry of gold standard by suggesting measures to restore equilibrium to the surplus as well as to the deficit countries.

As the London *Economist* points out, the plans start from the same assumption : that the purpose of an international monetary

system is to provide the conditions for a large and regular transfer of goods and services and capital among nations and to make it possible for countries to pay their debts or expend their credits without needlessly harmful consequences to themselves or to other nations ; and that the system must not be as autocratic in its effect upon national policies as the gold standard, or as anarchic in its effect upon world conditions as exchanges fluctuating freely. Each represents an attempt to find a middle way : to secure exchange rates that shall be known and stable in the short period, but movable as policies and conditions change ; that variations in exchange rates shall be generally agreed, and that these variations when made shall be calculated to bring internal price movements and world trends into harmony.

But behind all this, there are big 'ifs'. For, in the first place, no plan can work if policies and world conditions after the war are incompatible. As the *Economist* points out rightly, there is no magic in either plan. In the world before the great depression, when sterling was deliberately overvalued, when the franc was deliberately undervalued, when England lent long and borrowed short and when the U. S. A. first invested regardless of the productivity of its investments, then withdrew into its shell, and finally drastically increased its tariff against the goods of its debtors, no system could have worked. The underlying postulate of both the plans is that equilibrium, a balance between the debits and credits of each individual nation in terms of commercial and other transactions, will be physically and politically possible ; that nations with surpluses in their total balance of payments will either accept the goods and services of their debtors in return or relend their balances in such a way as to produce the means of repayment. Is the world going to change overnight in these directions ?

Another very urgent problem of postwar currency reconstruction remains in respect of the gold hoards of the U. S. A. and the question of their redistribution. There is little chance of any kind of gold standard functioning as long as the existing maldistribution of reserves exists ; and there is no chance of its functioning at all as long as the forces which have made for this maldistribution continue to operate. The problem is very largely dependent upon the fiscal and foreign-lending policies which the U. S. Treasury pursues after this war and whether or not there are stable political conditions in Europe.

So far as the policy of the U. S. Treasury is concerned, it is to be noted that, as Findlay Shirras rightly argues, so long as one country in the World, the United States, is in a position to buy or sell gold at a fixed price, there must be an unlimited demand for gold at that price. Between 1935-40, the U. S. has absorbed all the gold offered, and this absorption is not only the equivalent of all new production

of gold plus the amounts released by India and China and private hoarders in western countries, but also includes a very substantial part of monetary gold reserves of various nations. Although the future is not clear, it may, however, be laid down that the Federal Reserve authorities are not yet prepared to outgrow this "relic of barbarism".

Regarding the political situation in Europe, it must be recognised that the creation of as many states as possible in Europe after the last war proved unfortunate so far as the problems of foreign exchange and international trade are concerned. For, while the policy of recognising the right of self-determination on the widest possible scale kept Europe in a state of chaos, it gave no rest to the Allies. And by the time the continent recovered, the free flow of international trade completely collapsed in the face of the onslaughts of bilateralism. The unfortunate recognition of the same right in the Atlantic Charter will once more raise the same difficulties—the same national boundaries, tariff walls, currency warfare.

These are the initial difficulties. Now, we have to consider the plans. The Keynes plan for Bancor Currency sets out proposals for an International Clearing Union "as a preliminary contribution to the solution of one of the problems of international economic co-operation after the war." The proposals are framed to provide a generally acceptable means of payment between nations to ensure that any alterations in the exchange values of national currencies are made as the result of an orderly international procedure and not by unilateral action and to relieve from excessive strain any nation suffering from temporary difficulty in meeting its obligations to make payments abroad while at the same time subjecting it to additional pressure towards restoring balance.

The Keynes plan has been confused by some people with a multilateral clearing system, handling all international exchange transactions. Nothing of the kind. It is a clearing union that will deal only with the residue of unequal balances when normal commercial and capital transactions have been completed. "The idea underlying such a union is simple, namely, to generalise the essential principle of banking as it is accepted within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the union can never be in any difficulty as regards the honouring of cheques drawn upon it." Thus conceived, the condition of equilibrium under the British plan is the absence of excessive bancor debits and credits. Under the plan, however, no limit is set to the credit that any country can accumulate, without at the same time resorting to exchange control or increased lending abroad on long terms or increased imports. It only provides for a mild discouragement in

the shape of a fine which will be progressive. In this way, when the credit balance of the country exceeds one-half of the quota, there will be discussions with the governing body of the Union with a view to creating favourable conditions for an expansion of the country's imports and/or its long-term foreign lending but no coercion.

Since America will be a chronic creditor, this feature of the plan will be distasteful to her.

Similarly, the deficit countries will pay fines on all debit balances and at the same time have the right to devalue their currency by 5 p. c., when their bancor debit has exceeded one-quarter of their quota on the average of two years. If the debit balance reaches or exceeds half the assigned quota, the Governing Board may require a reduction in the value of the member's currency, the control of outward capital transactions if not already in force, and a reduction of the debit by the outright surrender of gold or other liquid assets. Internal measures may be recommended by the Board for the restoration of equilibrium of the member's international balance.

Apparently, the proposal is not concerned with violent fluctuations, nor are the remedies sufficient. If any country refuses to act according to the suggestion of the Board, there is little or no coercion, except expulsion. But that won't solve the problem. Besides, it is extremely doubtful whether these fines and other conditions stipulated will be sufficient to restore equilibrium. Again, the chief onus is placed upon member states to prevent the accumulation of excessive balances. It leaves the extent and nature of exchange control and control of capital movements to member states.

Even if we assume for the moment that the above measure is just enough to restore equilibrium, another question crops up. The main object of the plan is not merely the attainment of equilibrium, but " the substitution of an expansionist, in place of a contractionist, pressure on world trade." The underlying idea is that if a country finds itself in a creditor position against the rest of the world its credit balance will not be allowed to exercise a contractionist pressure against world economy, including its own. Thus it is argued that Britain would be able to offset favourable balances arising out of trade with Europe against unfavourable balances due to the U. S. A. But this is too narrowing the matter. Take the case of a chronic surpuls country like U. S. A. In such a case, if the country, as a result of the fine imposed, reacts by cutting her export, there will be no "expansionist" pressure; on the contrary, it will restrict the world trade. It has been suggested that instead of cutting exports she can raise her rate of imports to the level of export "by lowering her tariffs, by allowing her wage rates to rise relatively to the world level, or by appreciating her exchange or she can bring about such an increase in employment and expenditure that the surplus is wiped

out by an increase in her consumption of imported goods along with home produce." But will America agree to these proposals? If not, what guarantee is there that the imposition of the fine will not only restore equilibrium but will lead to an expansionist pressure? Another suggestion is that the United States "is to lend on long term to countries needing development at a rate equivalent to her surplus of exports." But this is simply to avert the difficulty for the time being, and no solution. For, if she resorts to this alternative, her surplus would doubtless grow, instead of coming back to equilibrium. Again, as the Editor of the Bulletin on New Plans for International Trade (Published from Oxford) points out, "Past experience, indeed, does not exclude the possibility that a surplus country, even when strongly pressed, might not react at all. Disequilibrium in international trade has in the majority of cases grown out of, or been accentuated by, economic failure within countries. In the case of the United States, for example, it has been found that the physical volume of imports moves exceedingly closely with the level of internal industrial production, and that this relationship has persisted in the face of tariff increases and decreases and even of violent currency derangements. The same applies to all industrial countries—*mutatis mutandis*—even to Hitler's Germany, in spite of her restrictive controls. The power of internal factors, such as the level of employment or the ability to adjust the economic structure to changing conditions, appears to be so overwhelming that the suggeted fines of one or two per cent must be considered unlikely to make much difference in either direction."

The United States plan for an International Stabilisation Fund is, however, different in technique from the Keynes plan. As the *Economist* points out, it is, in terms of the prewar practice, the method of the equalisation fund, in contrast to the method of exchange clearing, of which the Keynes plan is a generalised form. The proposal is for a stabilisation fund of gold, currencies and member-state government securities. The original proposal contemplated a fund of $5 billions, subsequently raised to $ 10 billions, to be subscribed by member nations in proportion to their foreign trade, gold holding and national income, and to be employed to stabilise the international value of national currencies. Obviously therefore the United States Government will be the principal contributor. Unlike the Union, the Fund will take the initiative in the exchange markets in the purchase, holding and sales of gold, currencies, bills and securities. Each member-state has the right to purchase foreign exchange from the Fund with its local currency for the purpose of meeting an adverse balance of payments on current account. But the Fund's holdings of any one country's currency must not exceed during the first year of the operation of the Fund the quota of that country, in second year 150 per cent. of the quota, and 200 per cent. thereafter.

The first revision of the American plan provides that the starting rates shall be those now prevailing except where they are clearly inappropriate in which case they shall be determined by consultation between the country and the Fund. It is also provided that for a period of three years, there shall be "special provisions" for adjustment in rates, but that thereafter a change would require a three-fourths majority. But it is too much to expect that the postwar world can attain a level of equilibrium within three years and that the exchange rates can find their "natural" level. The revision also proposes to set up from $12\frac{1}{2}$ to 50 p.c. in the proportion of each member nation's quota that must be paid in gold and "a country with inadequate gold holdings may have its gold contribution reduced."

In a subsequent revision it is categorically stipulated that the resources of the Fund shall be used exclusively for the benefit of the member countries. The obligation which was laid on member countries by the original draft to sell to the Fund, in return for its local currency or for foreign exchange all the gold or foreign exchange which it might acquire in excess of its official holdings at the time it became a member of the Fund is now reduced by half. According to the revised version, only 50 p. c. of that excess must be compulsorily sold to the Fund. As regards the abnormal blocked balances, there is no attempt in the revised plan to formulate a longterm plan for the transfer and repayment of these balances. Instead, it is stated that during the first two years, the Fund may buy from member countries blocked balances held in other member countries not exceeding in the aggregate 10 p. c. of the quota.

It is necessary to consider here the problem of international finance. The first that attracts our attention is the problem of pounds sterling, which, according to Mr. Leon Fraser, President of the first National Bank of New York, is "the world's financial problem No. 1." In view of the large external obligations created by Britain during the present war, the British international account will not freely balance. One remedy to this is the increase of British exports. But there are difficulties in the way, partly because of the existence of so many competitors in world market and partly because of the industrial development in different backward regions of the world as a result of the impetus given by the present war. Another suggestion, that comes from Mr. Fraser, is the following help from the United States:

1. A $5 billion credit to Great Britain in the form of a call on gold, on the understanding that neither nation would engage in competitive exchange depreciation.

2. Formal cancellation of the British War debt balance from the 1914-18 war.

3. Provision for a moratorium for a five year period on any postwar lend-lease payments involving British transfers.

The basis behind this dollar-sterling international standard would be gold, with the dollar firmly anchored to the metal and the dollar-sterling rate fixed by the two governments and protected during the postarmistice transition period by exchange control and American gold. Mr. Fraser also suggests the reorganisation of the Bank for International Settlements. But the most revolutionary part of his suggession is "that the U. S. must act like a creditor nation, encouraging imports of goods and export of capital."

Much more important than the problem of pounds-sterling is the problem of the dollar. The U. S. Department of Commerce has recently published a report, "The U. S. in the World Economy," which summarises American Balance of Payments throughout the entire period from January 1, 1919 to December 31, 1929, and the conclusion reached in the above report is that throughout this period, the supply of dollars was highly erratic and also that it had a tendency to be inadequate. Consequently, it has never been easy, ever since the last war, for countries other than the United States to earn as many dollars as they require. This difficulty is likely to increase after the present war. The present war has been an enormous expansion of American exports and her requirements of imported raw materials have been greatly reduced by the development of synthetics. Thus the shortgage of dollars will be all the more intensified. The suggestion that the situation will be improved if full employment is reached in U. S. is not of much help. As the report suggests, even if full employment is attained in the U. S., "the resulting stimulus on imports should not be exaggerated........The behaviour of imports stands in marked contrast to that of exports, which consist largely of high-standard-of-living goods and which, under conditions of economic expansion and rising incomes abroad, are susceptible of attracting a still more rapidly growing volume of foreign purchases. Imports of some finished manufactures, it may be noted, demonstrate a capacity for rapid increase in times of rising prosperity similar to exports, but the variety of such goods has been severely limited by the tariff, and they constitute only a minor part of the total." As for tariff, there is as yet no sign of change of policy and it is likely that the authorities would not go beyond the existing reciprocal programme.

And what will be the consequence? According to the American plan, the scarce currencies are to be "apportioned" with a view to "satisfying the most urgent needs", the "special needs, and resources of the particular countries making the request for the scarce currency" being taken into consideration. But what will be the effect of this currency rationing? According to Schumacher, it will inevitably lead to "discrimination", "bilateral compensation," "bilateral clearing

arrangement" and "multiple currency devices" and therefore it will not only be incompatible with the traditional policy of the U. S. State Department, but also with the avowed purpose of the scheme, *viz.*, "to eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices."

IV

THE CASE OF INDIA

The case of India should be considered in a different light from that of the chronic creditor countries. For, the change in India's position from debtor to creditor has not been easily acquired, but is the result of a straining of her economic life. If, under these circumstances, the same measures are contemplated for India as for the other surplus countries, that will not only mean a great injustice to her but will permanently retard the development of her economic life.

The following table from the *Economist* will give some idea of the accumulation of sterling balances of several countries in London:

COUNTRY	£000's	DATE
India	500,000	1943, 16th July
Eire	121,458	1943, March
Canada	157,300	1943 August (Interest Free Loan)
Egypt	71,200	1942 December
Malaya	58,000	1941 July
Australia	64,000	1943 31st May
New Zealand	34,000	1943 February
Argentine	17,500	1942 December

It will be seen that the sterling balances of India are the largest and so also is the rate of their growth. But so far as the British currency plan is concerned, the position regarding these balances is extremely inadequate and has not evoked much enthusiasm in this country. It simply suggests that the clearing union might make "some special arrangement" for converting war balances into bancor without putting an unduer strain upon the debtor countries. But what is this "special arrangement" likely to be. It is suggested that if abnormal war balances are liquidated by a flow of additional exports from the debtor to the creditor country, no special problem arises. But this is not so. For, if the " flow of additional exports from the

debtor to the creditor country" be in the shape of consumption goods, it will do a permanent harm to the industrial development of India, though, of course, it will considerably solve the problem of postwar slump in Britain. Besides, why should India be forced to purchase in English market? The eternal law is that the purchaser purchases in the cheapest market available. It is suggested under the British plan that the Clearing Union can purchase abnormal war balances in the same way as it can buy gold: simply by creating new bancor deposits. An arrangement can then be made with the debtor country whereunder it redeems its debt to the Union by bancor payments over a number of years. Meanwhile the creditor can buy without the debtor being obliged to pay. But several things should be considered here. In the first place, India should have the fullest discretion as regards the utilisation of these balances and it will be in her interest to purchase capital goods in the world market wherewith she can increase the rate of her industrialisation. And secondly, the suspicion expressed in some quarters regarding the future value of sterling is not quite baseless. It it not enough to suggest that we should face the future with courage and confidence. What is more important is to have an understanding that either India will have the balances at the same value at which they have accumulated or they should be converted into more secure bases. Nor is it enough, as the Finance Member argued in January last that "our sterling balances are not the only case with which the world will have to deal," for, I think, no other country is in so delicate a position with regard to these as this one. Dominions like South Africa and Canada have, despite their racial attachments to mother country, not postponed the question of utilisation of sterling balances until the termination of hostilities but have taken care to see that their immediate requirements are met and that their vital interests adequately safeguarded in all transactions relating to sterling. South Africa, *e. g.*, first acquired British investments there, mainly gold mines, and repurchased gold sold to the Bank of England out of its sterling accumulation and only then began to repatriate the bulk of its sterling loans. Canada has also made financial arrangements with British Government whereby 40 per cent. of the purchases made by the U. K. from Canada is to be paid in gold while 40 per cent. by transfer of British assets in Canada. Argentine, again, has been relieved of risk of depreciation in the values of sterling by a gold guarantee clause Hence, so far as India is concerned, there is no meaning in her facing the future with courage and confidence nor it is "foolish" to be forearmed rather than to see its acquisitions frittered away in postwar period by the deliberate fluctuation of the ratio in postwar period, the history of which is not much old.

That Britain will try to convert the trade of India in her own advantage is clear even now. For, the dollar balances which accrued

to India's credit as a result of a favourable balance of trade with America are converted into sterling. This has led to some amount of dissatisfaction in America owing to the discriminatory policy of the British against the United States, "....despite India's war time accumulation of large dollar balances, they are being converted into sterling as part of the deliberate effort by the British to bar the Americans from the Indian market. 'The Indian Government is being controlled by Britain to the point that they may not buy in the U. S. A. any more than they have to do, so that when the war ends, Indian importers will continue to trade with England' " Be it noted that this is done although Britain has not so much need of them owing to the successful working of reverse landlease operations. There is another point of criticism to be raised. At present these dollar balances are mingled with Empire Dollar Pool. What is wanted in Indian interest is that these should be kept separate and distinct so that she might utilise them to her best advantages. In this respect, however, the last Budget speech was rather vague when the Finance Member announced that His Majesty's Government have agreed, "as an integral part of the Reciprocal Aid arrangement to set aside each year from now onwards a part of the dollars accruing from India's exports to the U. S. A., apart from and in addition to our current dollar requirements which are met from the Empire Dollar Pool."

The huge accumulation of sterling balances in favour of India, as also of other Dominions, led some people in England to suggest that the Indo-British financial agreement should be revised. Thus the London *Economist* argues, "The generosity of financial agreement between the two Governments which has led to the present enormous accumulation doubtless reflects credit on British intentions. But its lack of realism is nonetheless deplorable. Not only has the operation of this agreement revolutionised the debtor-creditor relations of the two countries, but it is bestowing on India one of the most pronounced inflations experienced by any belligerent country." The idea behind all this is that under existing agreement, Britain pays India for India's contribution to common war effort, but India does not pay Britain for her contributions to India's defence. This theory of "equality of sacrifice" does not take note of what India has already contributed to the British war effort. Because India has emerged from the status of a debtor to a creditor country in relation to Britain, it does not follow, in the least, that she is in a position to fulfil the condition implied in the principle of "equality of sacrifice," nor are here sterling balances an adequate criterin of India's ability to pay. As already noted, these developments in India's finance have been achieved as a result of postponement in India's normal consumption through the exigencies of the war. On the other hand, any impartial examination of this question should also take into account factors which constitute India's concealed sacrifice and contribution

to the war, such as the utilisation of sterling balances in England at a nominal rate of interest to finance Britain's war effort. What is important today is that the Government of India should secure a clear recognition from the British Government that the boundaries of India will not be extended and that no part of the expenses for the operation of the South East Asia Command for operations against Japan will be paid out of Indian exchequer.

There is another thing to note in this connection. In the Budget speech, last year. the Finance Member declared that "the Government of India are also considering a proposal that something in the nature of a Reconstruction Fund should be constituted to provide for the financing of a programme of postwar reconstruction, including the rehabilitation and reequipment of industry............The existence of a Reconstruction Fund with a concerted programme of requirements would enable India to go ahead with postwar reconstruction with minimum delay." This declaration, however, did not evoke much enthusiasm among the Indians. It was felt that the maintenance of such sterling credits on the ground that they would assist India's purchases after the war meant in effect, that they are designed to constitute a kind of indirect aid and to provide an assured market to British exports after the war. Now that the Fifteen Years' Plan has been published, the Finance Member speaks in a different tone. He says, "we must not, however ignore the difficulties which are likely to arise, in at least the first postwar decade, from competing claims for capital equipment and from transfer difficulties associated with the balance-of-payments position of the United Kingdom. Again, to utilise the whole of these balances and at the same time the whole increment of foreign funds accruing from current exports, would leave India with a wholly fiduciary currency. A note issue with nothing behind it except the authority of the Government is exposed to all the winds that blow, and some of them might be very adverse indeed. ....External Reserves seem to me to be absolutely indispensable, and, therefore, it is unrealistic to assume that foreign balances, actual or prospective, could in any circumstances be fully available for reconstruction finance." Whether these balances are available or not for our postwar reconstruction, the Finance Member may be assured from our wartime experience from currency inflation that there is slight danger of any adverse wind blowing and that anything with the authority of the Government behind it will circulate smoothly in this country.

The irony of fate is that the position of India as a creditor is no better than her position as a debtor. Nevertheless, it is the proper time when something definite should be done with regard to these sterling balances which have been acquired at a heavy cost. Since India is a creditor country, I think, she should be in a

position to dictate the terms and the problem can best be tackled by separate agreement rather than by looking at it from an international perspective.

V

SUPPLEMENTARY NOTE

Since the above article was written, some modifications have been announced in the postwar monetary plans. The main framework of the joint proposal that has been issued by British and American authorities follows the original White plan more closely than the Keynes plan and therefore the much-apprehended dictatorship of gold still remains. The yellow metal has so great a charm that even the Soviet Government, which once expressed abhorrence against any system of currency, has given its support to this 'relic of barbarism'. In this respect, therefore, our conclusion and apprehension as expressed above still stand unaltered. So also is the case with the discussion on the position of India. This has been further confirmed by the attitude of the authorities recently expressed, causing much anxiety to the commercial interests of India.

It is to be noted that at least so far as the paper plan is concerned, the British and American Governments, who have almost opposing interests, have, after a long tussle and exchange of ideas, found a possible formula for joint agreement. But what is peculiar is that all these discussions presuppose stable, or fairly stable, conditions. But by the time such conditions come to stay, it may be, and will be necessary to give a few more revisions to the plan. Besides, the future postwar years are sure to be more acute than we have experienced in the past. In the past all had a faith in the restoration of international economic co-operation, which, however, was made impossible by circumstances. Now that all the nations are well versed and well experienced in economic nationalism, in the immediate postwar years this phase is going not only to be acute, but also to be very much aggressive.

Another point which raised much controversy was the money-of-account, which in the Keynes plan was a fictitious Bancor while in the American plan it was an actual coin. Besides, the idea of an international body creating international credit and lending it on overdraft to deficit countries was also distasteful to some countries. These aspects of the old plans have been dropped. The alternative proposal is to constitute a Fund which will operate entirely in terms of existing currencies, to be supplied in the shape of initial subscription by member countries. The new Fund will contain about $8

billions, out of which American quota alone will vary between 25 to 30 per cent. It is stated that members will be entitled to buy foreign currency from this Fund in exchange for their home currency. But then there is a certain limit in this respect and it has definitely been stated that the Fund will not meet sustained outflows of capital.

The object of all these plans is to promote international monetary co-operation and to help eliminate restrictions of foreign exchange and trade. It is not possible to state precisely what this co-operation will amount to ; but this much may be said that the elimination of restrictions of foreign exchange and the establishment of a free flow of international trade are, in spite of the recent advocacy of the London *Economist* on almost traditional *laissez faire* lines, mere catch-wards. True, this is in keeping with the interests of some countries who want to recover their creditor position by making a strenuous effort to increase their exports and of others for fighting the postwar slump. But there would be quite a number of countries for whom regulation in these matters, not only in immediate postwar years, but even under stable conditions will be not a matter of choice but inevitable. It is proposed that any member country would be allowed to change its currency parity by a maximum of 10 per cent. of the initial value on its own initiative and a further ten per cent. with the permission of the Fund to correct fundamental disequilibrium, particularly any disequilibrium arising from domestic, social or political policies of the country. It has been hailed by many as a great change towards leniency ; it may be so to some extent, but it has not solved the problem of fundamental disequilibrium. As the Reuter's City Correspondent apprehends, "If any country's wage and price structure had risen as a result of full employment policies or deficit, the Fund could not criticise the national policies or suggest that the country should contract its credit or balance its budget."

Another new feature introduced is the " right to sucide." In the original proposals it was laid down that if a country's borrowings were exceeding a limit, then certain restrictionist conditions would be imposed on the country. In the new scheme it is laid down that if the country is reaching its borrowing limit, the Fund will intimate that, setting forth its views which, however, are not binding in any way on the country concerned which may withdraw from the Fund at any time after liquidating its obligations to it within a "reasonable" time. It is this provision that will operate vehemently in postwar years. For, in case of many countries who have suffered directly from the War, and in case of many backward regions, there will be need for borrowing for reconstruction and development purposes ; but since there is a borrowing limit, many of them will find it difficult to borrow in necessary amounts from the Fund. Besides, once the country is involved into obligations with the Fund, it will have to meet them

after withdrawal. Under these conditions, many prospective poor countries will abhor the idea of joining the Fund and will be out in "black market" for meeting their immediate needs of rehabilitation, reconstruction and development of the economic structure.

British opinion has been very anxious about two things. The first is that the whole burden of correcting disequilibria should not fall on deficit country. This attitude is to be discussed in the light of new developments in British economy which has made her a debtor in international account. So long England was a creditor nation and therefore the sole responsibility of correcting disequilibria rested with the deficit country. Now that the whole position has changed, the British authorities are singing a different tune. As the London *Economist* (April 29, 1944) says, "when the balances of payments of the nations get out of adjustment, the fault may lie with the country that is buying too little and therefore running a surplus, rather than with the country that is buying too much and therefore running a deficit." Besides this, the second point on which the British opinion is insistent is that any currency agreements should not work prejudicially "to the efficient functioning of the sterling area, which seems, to British minds, no more incompatible with a good international system than the British Commonwealth of Nations is with an effective system of world order." This attitude cannot but prejudice an effective international scheme; for in such a case, America may demand the free working of its scheme in the new world, and the Axis countries may also claim the operation of their own schemes in their respective spheres of influences. If there is to be any real international co-operation, let it be in true sense of the term; the restriction of political boundaries in economic spheres is sure to cause trouble, particularly so because the different partners of the Commonwealth are not in the same economic position, nor do they stand on the same footing in international accounts.

Finally, none of these plans are concerned with the Axis Powers. This is likely to raise greater complications this time than after the first great war. Whoever may be responsible for the present war and whatever may be the crime of any particular country, any scheme of international monetary co-operation and stability must give up all prejudices against any individual monetary system and make such plans as would enable them all from both the camps to move forward in step in postwar years.

THE PLACE OF AGRICULTURE *VIS-A-VIS* INDUSTRY IN THE INDUSTRIALISTS' PLAN

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1. The inspiring aim of the Industrialists' *Plan of Economic Development for India* is to improve the miserably low standard of living of the masses of this country by increasing the national dividend from the present level of Rs. 2,200 crores to Rs. 6,600 crores for the entire country. In terms of *per capita* income, this would raise the present figure of Rs. 65 to Rs. 135, taking into account the increase in the population during the decade and a half that the Plan would take to work itself out. This improvement in the national dividend, income *per capita* and standard of living will be brought about by investing a sum of Rs. 10,000 crores as follows :

	(Rs. Crores)
Industry	4,480
Agriculture	1,240
Communications	940
Education	490
Health	450
Housing	2,200
Miscellaneous	200
	10,000

At present the contribution of industry, agriculture and services to the total national dividend of British India is 17, 53 and 22 per cent respectively. These figures would be changed after the period of the Plan to 35, 40 and 20 respectively. There would occur the following increments in the net income from industry, agriculture and services:

	Net income in 1931-32 (Rs. Crores)	Net income expected after 15 years (Rs. Crores)	Percentage increase
Industry	374	2,240	500
Agriculture	165	2,670	130
Services	484	1,450	200

2. As would appear from the above, the authors of the *Plan* propose to spend about four times the amount scheduled for investment in agriculture, on industry ; and while they want to increase the national income yielded by industry by 500 per cent, the income contributed to the national dividend by agriculture is to be increased by 130 per cent only. After 15 years that the Plan would cover, the income yielded by industry would become almost equal to that yielded by agriculture. Only Rs. 1,240 crores are to be invested in agriculture, which is only 12 per cent. of the total finances involved. From the standpoint of the total amount of money to be invested in the productive sector of our economy, it is merely 19%. It is only 30% of the total sum proposed to be spent on the consumption part of the whole scheme. It is, again, slightly less than 28% of the sum that has been scheduled for investment in industry. Evidently, the authors of the *Plan* believe that the economic prosperity of the country can be accomplished chiefly by the development of her industry, and agriculture is to play the second fiddle in the whole programme. Whether this is a right attitude to take or not requires deep and considerate thought as it is a problem of fundamental and basic importance to the vital issue of economic planning.

3. The problem of agriculture in this context can be viewed in two forms : relative and absolute. Relatively, we have to thrash out the problem of the economic propsective and to examine the place that agriculture has been given by the authors *vis-a-vis* industry. Absolutely, we have to examine the programme of agricultural development that has been chalked out by the authors and find out if it is adequate or is calculated to put our agricultural advantages to the best use and purpose. Though both these aspects are of major importance, we will, for want of space, go only into the first of these problems here.*

4. The problem of economic perspective is the basis and essence of an economic plan and requires careful thought. The chief consideration which has guided the Eight Industrialists in the conditioning of this perspective, is the need of establishing a balanced economy in this country. According to them, the present income from agriculture is Rs. 1,166 crores, and from industry, Rs. 374 crores. This disequilibrium, according to them, is to be removed by increasing the income from industry by 500% to the level of Rs. 2,240 crores and that of agriculture by only 130% to the level of Rs. 2,670 crores. The aggregate income yielded by both thus comes to be almost equal ; and in this way our economy would be brought in a state of equilibrium.

*For a discussion of the latter problem, see my book, *A Critique of the Industrialists' Plan* (Benares, 1944).

5. Now, this is making a wrong start, for the idea of balanced economy given by these planners is altogether new and is not on all fours with the true ide! which should guide economic planning. The sort of income-equality envisaged by the authors has, as a matter of fact, no economic sanction, nor can the economic theory be adequately invoked in its support Its emergence in their deliberations is purely accidental or managed. They have pitched up the full-fledged development of industries and half-hearted growth of agriculture in such a manner as to secure a purposeless and misleading equality in the income yielded by them. And, thanks to the long-standing demand in this country for bringing her economy in a state of equilibrium they have easily imagined and suggested that it is this equilibrium which was wanting in our economic development and which they have sought to establish. This appears to be rather a misleading position. For all the students of Indian Economics know that the sense in which the term "equilibrium" has been used by the authors is quite different from the sense in which it has hitherto been used by the economists of the country. The term equilibrium (or disequilibrium) has thus far been employed in the occupational sense and all that it has meant is that too many persons have come to depend upon agriculture and some of them should be shifted on to industry so that pressure of population on land may become less burdensome and the distribution of population over different economic pursuits *inter se* may become such as is in our best interests. But forgetting this valid and correct sense of the term "equilibrium", the authors have used it in an altogether novel sense which cannot be defended on the score of economic theory or practice. The theory of balanced economy is merely another name of the doctrine of the full employment of human and material resources of a country, and, according to it, the best interests of a nation would be served if the proportion between the industrial and agricultural sectors of her economy is arrived at and determined through a process of pttuing her entire resources to the best possible use in relation to internal consumption, production and exports. Of course, if autarkic or controlled economy conditions are forced upon us, we would have to make necessary adjustments in this position. But such a readjustment is quite a different proposition from the suggestion that the incomes from industry and agriculture should be made equal. And the authors of the *Plan* appear to be remote from this ideal. Their proposals run counter to the theory of full and best utilisation of our human and material resources, to which aspect of the matter they must devote greater and more serious thought. There might, indeed, be a confusion on their part that by weaving the pattern of 'equilibrium' of their conception in our body economic, they would serve the ends of the theory of full employment as well, to which they pay their homage in a sentence on page 7 of their *Plan*. But as they

want to develop agriculture only to such an extent that the total income yielded by it becomes equal to the total income yielded by industry, and not to the fullest and widest extent which our great agricultural advantages render possible and likely, their proposals become inhibitious to agricultural progress in violation of the above-mentioned economic doctrine.*

6. The authors have not, however, given a bald statement of their aim or view, but have defended their position by giving certain reasons why the target for agriculture "has been deliberately fixed low". Their "idea is that in respect of agricultural commodities India should as far as possible aim at feeding her own population adequately and should not aspire in the initial years of planning to export to foreign markets," because agricultural exports "have introduced a serious element of uncertainty in our economic life."†

7. These grounds appear to be rather questionable and flimsy to warrant the whittling down of agricultural progress and development within the narrow limits of national demand and requirements. We do not understand or appreciate why should India aim merely "at feeding her own population adequately" and why not at feeding populations of other countries of the world or industrial machinery stationed in India and abroad as well. We have ample supply of rural labour. Our agriculture is in a decadent state and the scope of qualitative improvement is very great. Our per acre output is considerably less than the corresponding figures for foreign countries. We are extremely fitted for expanding our agricultural production freely. From the marketing viewpoint, we have vast internal markets, which would rapidly grow under an economic plan, and huge foreign markets which would also expand under the economic plans which are being hammered abroad. The proceedings of the Hot Springs Conference and the preceding and subsequent nutrition studies and researches, have revealed great gaps between the present diets and the diet which can yield adequate nutrition for maintaining normal health ; and everywhere there is discernible a clear anxiety to ensure adequate nutrition to the masses and classes alike. The realisation of this worthy object would itself push up the foreign

*This view of mine has come in a certain amount of criticism, *e.g.*, see Mr. P. Chandra's article, *Agricultural vs. Industrial Development* and Mr. P. C. Malhotra's article, *A Note on the Bombay Plan* in the COMMERCE (Bombay) of 8th April and 15th April respectively. But such criticism does not adequately deal with the main points involved in the issue. See my rejoinder, *Agriculture in an Economic Plan*, COMMERCE (Bombay), 24th June, 1944.

†The position of the Industrialists in this regard has been fully discussed, *inter alia*, in my book, *Pessimism in Planning* (Allahabad, 1944), to which reference may be made.

demand for our produce to a considerable degree. To this we must combine the great demand for agricultural raw materials that would be created by the rapidly expanding and progressing agricultural economies of foreign countries committed to raise their national dividend and *per capita* income of their people in terms of money, and goods and services. We can, therefore, look confidently for growing and vast markets for our agricultural products, inside as well as outside the country.* We must not surely allow our resources to work at inefficient levels or to be kept idle partly or wholly, deliberately fail or even refuse to capture foreign markets for our agricultural products, and keep our target in regard to agriculture at a low point.

8. We are also not satisfied to find that the Eight Industrialists advocate the application of autarky to Indian agriculture—at least they appear to do so. So far as their own pronouncements are concerned, they are evidently contradictory. On page 30 of their *Plan* they first say that we "should not aspire in the initial years of planning to export to foreign markets", and then declare a little further that the areas under commercial crops "would have to be adjusted to the conditions of international trade that might prevail in the post-war period," which are quite opposite things. It, however, can be inferred from their entire discussion that it is autarky for agriculture which they have in view. Without entering into a detailed discussion of the rationale of such a policy at this place, we would like to enquire about the future, under an autarky, of such agricultural crops as tea, jute and groundnuts which mainly depend upon foreign markets and for which internal markets are essentially limited. If they are also suffocated within the strangling limitations of internal demand, an important source of income to the country and her cultivators would be cut short. It is true that crop-planning might be of some help in this direction but how much crop-planning would be necessary, to what extent such a programme can be successfully implemented and how far would it be desirable on economic grounds to adopt such a course, are important questions which then emerge and to which authors have not paid any attention. We would further like to point out that the authors have nowhere stated that the industrial development of the country should also be confined to the narrow limits of the internal demand. Then why should they fix this ideal for agriculture ? It is, indeed, anomalous to apply autarky to one part of economy only and not to the other or others.

9. So far as the timology of the adoption of autarky or international trade principle is concerned, it would not be altogether proper

*For a fuller discussion of this aspect of the matter, see my article *Planning and Postwar Trade Prospects* in the Annual Number of *Investment and Finance* (New Delhi), June, 1944. Also Colin Clark, *Economics of 1940.*

to suggest that we should during initial years of planning withhold all exports to foreign markets and in later years, when perhaps our inefficiently-levelled agriculture is able to produce all that is necessary for internal consumption as well as industrial requirements. we might think of exports. *Firstly*, if the Planners think that the 130% improvement in our agricultural, which would be just sufficient to feed our entire population and industries, would be accomplished at the end of 15 years, there can be no question of exporting either in the initial years or later years of planning. We do not, therefore, understand the meaning of the authors in suggesting that we might export agricultural produce in the later years of planning. *Secondly*, it would be unwise for us to lose our foreign markets deliberately and boycott ourselves from the scramble for them in the post-war years, when we can never be sure that we would be able to regain them when we desire at a later stage. If we once lose or fail to capture these markets at the right opportunity just after the "cease-fire" order is issued, others might plant themselves firmly in them and it might not always be easy or possible for us later to eject or supplant these competitors. We cannot go jubilant over an autarky which makes us deliberately and gladly lose our foreign markets with a view to make our economy closed to the letter. *Thirdly*, if we accept the ideal of agricultural exports in the later years of planning, we must accept it as an ideal for the earlier years as well, in view of the fact that our agricultural capacity is so vast that it can be made to take care of both the export markets as well as internal requirements provided a sufficiently progressive and scientific policy is adopted in respect of it, and that during the process of rise in the standard of living a certain slowness can be injected, in the wider interests of production and marketing which would secure substantial advantages at a later stage, in case this be deemed necessary or essential.

10. Apart from it, there is another serious point which requires close consideration. The Eight Industrialists themselves envisage a favourable balance of trade of Rs. 600 crores during 15 years, which works out at Rs. 40 crores per annum on an average. Now, at present our main exports are agricultural commodities, manufactured goods being exported to the extent of about 25% only. If we cease to export our agricultural goods, it would mean that about 75% of the total amount appearing on the credit side of our balance of payments account would be wiped of. In that case, our exports of manufactured goods alone would be left so slender as to be altogether incapable of not only paying for all the imports of capital goods, skill and other like factors but also leaving a margin of Rs. 40 crores in our favour every year. It would, indeed, be extravagant to fancy that as soon as a plan is put into motion, our capacity of and efficiency for pro-

ducing manufactured goods would suddenly become so crushing and our diplomacy so sharp and skilled that we would beat down the seasoned industrial nations in the world markets, pierce the protective wall raised and to be raised by the hitherto industrially backward nations for developing their industries, and establish ourselves as a pre-eminent industrial-goods-exporting country in the world. The suggestion of applying autarky to agriculture does not seem to fit in with the suggestion of securing Rs. 600 crores as favourable balance of trade.

11. The last argument of the authors of this *Plan* against agricultural exports is that they these exports have introduced an element of uncertainty in our economic life and consequently they should be eliminated. It is just like suggesting that because your shoe pinches, you should have your leg amputated! If our exports are found to introduce uncertainty in our economic life, let us devise methods of eliminating or reducing this uncertainty rather than pass a death sentence on the exports themselves—the wrongly supposed villain of the piece. At present, agriculture is in the hands of poor cultivators and a few Indian exporters operating on all conceivable scales and lying haphazardly scattered and dominated by the agents of the powerful foreign firms of importers. There is no apparatus at present of estimating internal and world demand in the coming year, of ensuring that the results of such an enquiry and forecast would be communicated to, cultivators who would be made to put them into practice, and that due diplomacy would be applied in securing foreign markets for our products at profitable terms. But such a comprehensive system must be devised under an economic plan and must operate at an expert and efficient level. In this way it would be possible and easy to remove the element of uncertainty, particularly if a simultaneous attempt is made to develop and make our agricultural economy elastic and adjustable to a variable demand pattern within available limits.

12. We, on the whole, feel that the Eight Industrialists have fixed the target for agricultural produce needlessly low and have made an unnecessary departure from the full and best employment doctrine, a position which has been propped upon the questionable ideas of autarky and balanced economy. The result has been that in assigning a place to agriculture *vis-a-vis* industry, they have tipped the balance in favour of the latter to an extent that they have furnished an important line of attack to their critics which could have well been avoided.*

* For constructive suggestions to the Eight Industrialists in this regard, as well as in other respects, see my *Critique of the Industrialists' Plan* (Benares, 1944).

TAXATION OF MONOPOLY

By

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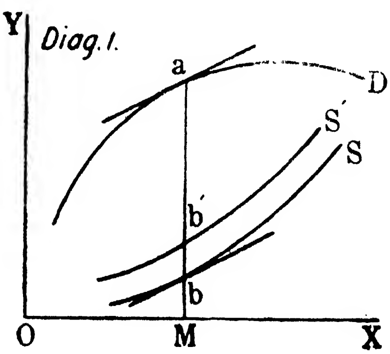
Taxation of monopoly is an important problem in economic theory. Very few students, however, care to work out the incidence of various types of taxes on monopoly as that involves an abstruse mathematical procedure. I have made an attempt, therefore, in what follows to treat the problem of shifting and incidence of monopoly taxation in a manner that may be easily intelligible to an average intelligent student. The use of calculus has been avoided and the only mathematical apparatus employed consists of simple demand and supply curves.

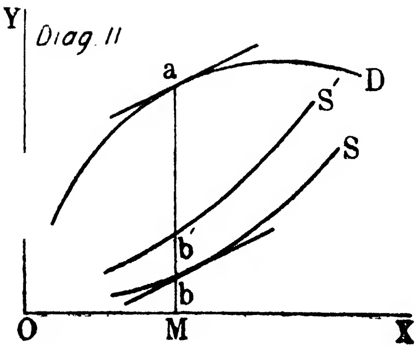
In diagram I, D is the demand curve showing the total expenditure that the consumers would incur on the commodity in buying the amount that is offered for sale. The ordinate of a point on the curve represents total income of the monopolist and its abscissa the amount sold. S is the supply curve representing, in a similar manner, the total cost of production. The vertical distance between the two curves represents the monopoly which is maximum when the tangents to the curves at corresponding points are parallel, (marginal revenue equals marginal cost). The convexity of the curve S indicates that marginal costs are increasing.



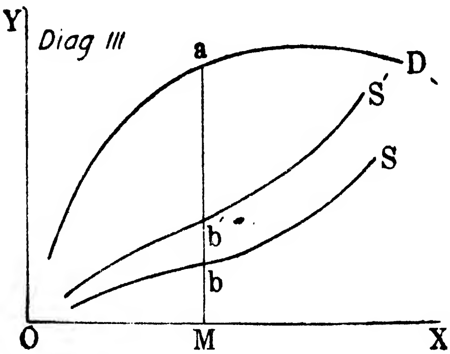
First let us consider the case of a fixed lump-sum tax on the monopolist. Such a tax will raise the supply curve S vertically through a distance representing the tax. Thus, in diagram I the supply curve occupies the new position S', bb' being equal to the tax. The curve S' being parallel to the original supply curve S the monopoly revenue is still maximum for the output OM. (Marginal cost is still the same). Thus, the monopolist is not able to shift the tax to the consumers. The price remains unaffected by the tax.

PROPORTIONAL TAX ON OUTPUT

A tax proportional to output makes the cost curve steeper.



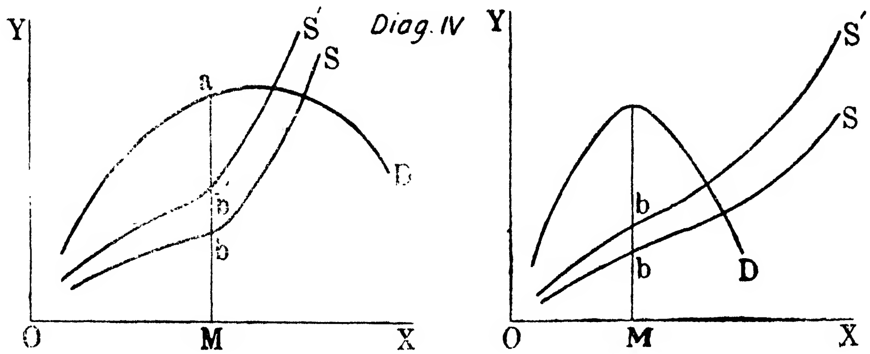
In diagram II, the cost curve occupies the new position S′, the vertical distances between the two curves S and S′ representing the amounts of tax paid. The tangent at the point b′, corresponding to the point b, is now steeper than the tangent at the point ' a ' on the demand curve. In such a case it is not possible to increase the monopoly revenue by increasing the output as the tangents become less parallel. A decrease of output, however, reduces the slope of the tangent at b′ and increases that of the tangent at 'a'. It is therefore possible to make the tangents parallel by reducing the output. The levy of a proportional tax on output, thus, causes the price to rise. The tax is shifted to the consumers. (It is not possible to indicate the extent to which the price rises by means of such a simple technique as we have used here.)



When the marginal costs first decrease and then increase the supply curve is of the shape shown in diagram III. Suppose that the monopoly revenue is maximum in the region of decreasing marginal costs. The tax makes the curve steeper. The tangent at the point b′ now becomes steeper. An increase of output makes the tangents even less parallel. A decrease of output has the effect of making the tangents at both the points a and b′ steeper. For some time the tangent to the curve S′ will continue to be steeper than that to the curve D. But later it must become less steep. The point at which they become parallel is the new point of maximum monopoly revenue. Hence, even in this case the levy of a proportional tax on the output causes it to decrease and the price to rise.

It is possible however that under certain conditions of demand and supply the tax may so alter the supply curve as to render an increase or decrease of output unprofitable. In such a case the tax would merely decrease the marginal revenue keeping the price unaltered. Diagram IV illustrates two such cases. There are two figures in each of which the supply or the demand curve has a sharp turning point. In both the cases the maximum monopoly revenue is obtained at the abrupt turning point, *i.e.*, the monopoly revenue is maximum for the output OM where M is such a point that the perpendicular through it passes through the turning point of the supply or the demand curve,

as the case may be. The tax makes the curve S steeper. It is obvious that neither an increase nor a decrease of output can inflate the



monopoly revenue. This is due to the fact that nowhere do the tangents become parallel. (As a matter of fact there are a number of tangents at the point b, in the first figure, and at the point a, in the second figure, one of which can always be found to be parallel to the tangent at the corresponding point on the other curve D or S′ as the case may be).

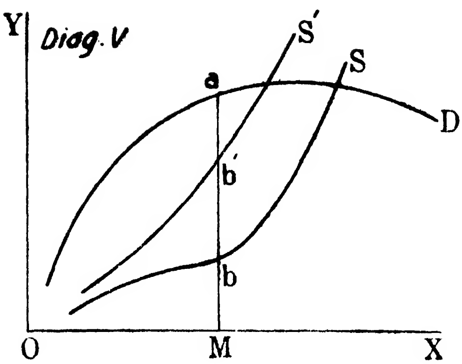
The conclusion, therefore, is that a tax proportional to output does not cause a fall of price; in some cases it keeps output unaltered, but normally it makes its reduction profitable and hence leads to a rise of price.

PROGRESSIVE TAX ON OUTPUT

A progressive tax on output increases the slope of the supply curve more than a proportional tax. Hence, when the supply curve is of the type shown in diagram II the levy of the tax causes a greater shrinkage of output than a proportional tax does. The price is therefore raised and the tax shifted.

When the supply curve is of the type shown in diagram III the effect of the tax is the same. The output is reduced and the price raised.

In the case, however, of supply and demand curves of the type given in diagram IV, a moderately progressive tax causes no change in the price. For, though the supply curve becomes steeper it does not become parallel to the demand curve at any other point than b′. The monopoly revenue, therefore, still remains maximum at the output OM.



But in the case of such a supply or demand curve a highly progressive tax on output makes the supply curve convex to the axis of X, as shown in diagram V. Hence, it becomes possible to find points of parallel tangents on the supply and demand curves for some output smaller than OM. The price, therefore, rises and the tax is shifted.

A REGRESSIVE TAX ON OUTPUT

A regressive tax that varies in an inverse proportion to the output is equivalent to a fixed lump sum tax on the monopolist. The supply curve therefore rises vertically, remaining parallel to the original curve. The imposition of the tax does not alter the position of maximum monopoly revenue. The output and the price remain unchanged ; the tax is paid entirely by the monopolist out of his monopoly revenue.

In the case of a tax that is slightly less regressive the supply curve becomes steeper to a certain extent and hence the output and the price are affected in the same way as in the case of a proportional tax.

A very highly regressive tax on output makes the supply curve gentler in slope with the result that when the conditions of supply and demand are as depicted in diagrams I and II the output increases and the price falls. This brings about what we may call negative or backward shifting of the tax.

In the case of curves having abrupt turning points it is very rarely that an extension of output increases the monopoly revenue. When, however, the tax is so highly regressive as to become negative for all amounts in excess of a certain output, increased production with a lower price becomes more likely. (In other words, bounty for amounts above a certain fixed limit has the effect of lowering the price.)

PROPORTIONAL TAX ON MONOPOLY REVENUE

A tax proportional to monopoly revenue cannot be shifted. In

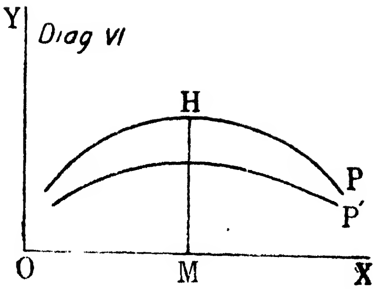
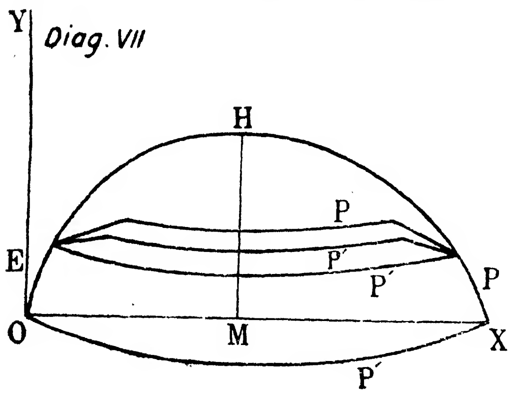


diagram VI, P is the profit curve or monopoly revenue curve. The ordinate of a point on it, indicating a given output, equals the vertical distance between the supply and demand curves for that output. In the absence of a tax the output is OM, where M is vertically below H, the highest point on P curve. A tax proportional to profit lowers the curve P to a position P′, reducing its curvature. But it is obvious that in the new position its highest point shall still be on the line HM. It is only when the curve P′ loses its concavity entirely by becoming absolutely flat that it ceases to have a point of maximum height, and the new output becomes indeterminate. But such a position is reached when the curve coincides with the X-axis, that is, when the tax is cent per cent. of the profit. Hence it follows that a proportional tax on monopoly revenue does not affect the price and consequently the incidence of such a tax is entirely on the monopolist.

PROGRESSIVE TAX ON MONOPOLY REVENUE

A progressive tax on monopoly revenue lowers the curve P making it flatter than in the case of proportional tax. When the tax is moderately progressive the curve P in its new position P′ still has its highest point on the line HM. But when the rate becomes highly progressive the curve P′ may become either horizontal, making the output indeterminate, partly or wholly convex to X-axis, as shown in diagram VII, in which case there will be two highest points on it, one for a smaller and another for a greater output than OM.



But the profit curve cannot become horizontal unless there is an exemption limit for the tax. Similarly, if it is to be convex there must be an exemption limit or the tax should be allowed to become greater than the monopoly revenue itself. In the latter case the curve would be below the X-axis. In the diagram the exemption limit is OE.

We conclude, therefore, that the incidence of a moderately progressive tax on monopoly revenue is cent per cent. on the monopolist. Further, that a highly progressive tax may make the output indeterminate or smaller or larger output equally possible when there is an exemption limit, with the result that such a tax may be positively or negatively shifted.

REGRESSIVE TAX ON MONOPOLY REVENUE

A regressive tax on monopoly revenue may make the curve P′ either flatter, parallel to or steeper than the curve P. In every case therefore the highest point remains on the line HM that is, the output and consequently the price remain unaffected. The incidence of the tax is entirely on the monopolist.

CONCLUSIONS

Our conclusions may now be summarised as follows :—

I. Taxes which do not affect the price and the incidence of which is, therefore, entirely on the monopolist are : (*a*) a fixed lump sum tax, (*b*) a tax proportional to monopoly revenue, (*c*) a tax proportional to output when the supply or demand curve has a sharp turning point, that is, when the elasticity of demand or the marginal cost of production changes abruptly, (*d*) a moderately progressive tax on output when the elasticity of demand or the marginal cost changes abruptly, (*e* a regressive tax on output when the rate varies in an inverse proportion to the output, (*f*) a moderately regressive tax on output when the elasticity of demand or marginal cost changes abruptly, (*g*) a moderately progressive tax on monopoly revenue, and (*h*) a regressive tax on monopoly revenue.

II. Taxes which cause a reduction of output and consequently a rise of price are :(*a*) a tax proportional to output in all cases except when the elasticity of demand or marginal cost changes abruptly, (*b*) a moderately progressive tax on output except when the elasticity of demand or marginal cost changes abruptly, (*c*) a highly progressive tax on output, (*d*) a highly progressive tax on monopoly revenue in which case, however, the price may rise or fall, (*e*) a moderately regressive tax on output except when the elasticity of demand or marginal cost changes abruptly.

III. Taxes which cause an increase of output and consequently a fall of price are : (*a*) a very highly regressive tax on output in all cases and (*b*) a highly progressive tax on monopoly revenue when the output may either increase or even decrease.

ON THE DEFINITION OF MERCANTILISM

By

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Mercantilism has been so variously described that it may be doubted whether it has a generally accepted meaning. In this paper an attempt will be made to clear up certain ideological uncertainties in regard to the term Mercantilism with a view to a further endeavour of giving it, if possible, the status of a distinct and autonomous concept.

We would at the very outset make a distinction between Mercantilism and the Mercantile System. The distinction we seek to convey by these two terms, is, to our mind, fundamental, and much confusion, we believe, is due to an insufficient recognition or appreciation of their difference.

The Mercantile System or the System of Commerce, we would define, consists of the aggregate of those commercial rules and regulations which were adopted by the nation states of the 17th century Europe, through the direct or indirect mediation of self-seeking merchants and manufacturers who advocated those measures—but only ostensibly—to show a way to the satisfaction of the then prevalent craze of the nations for precious metals. This was by way of the regulation of commerce and the so-called favourable balance of trade, which together may be said to provide the doctrinal basis of the system.

Mercantilism, on the other hand, may be defined as comprising a theoretical system, the result of a speculative analysis which developed around the core of a balance of trade theory a uniform body of doctrines aiming at 'objectively accurate solutions' of contemporary economic problems. The exponents of Mercantilism may be called Mercantilists.

Our emphasis, it should be understood, is on the *distinction* between the two conceptions and *not* on the terms which we have used for them. Cannan defines Mercantilism 'as the merchants' protest against the prohibition of the exportation of coin and bullion' (*Review*, p. 7). Deriving from 'merchant' or 'merchandise,' the term Mercantilism would seem to be a better name for what we have called the Mercantile System. In that case we would need a

new title for the theoretical system described here as Mercantilism. But the essential distinction would remain unaltered. In the present paper, however, we shall use the terminology mentioned above.

Ordinarily these two conceptions, one a theoretical system and the other a complex of practical commercial policies, are not treated as separate entities. Most writers use the two phrases as mutually convertible, and their definition suggests a clear leaning towards an emphasis on the commercial or mercantile regulations, rather than on the contents which are of a more speculative character.

The reason is either of two. Either these writers do not see or recognize any substantial difference between Mercantilism and the Mercantile System (as defined above), and so do not consider valid any distinction that may be drawn between them,* or, alternatively, they mix up the two conceptions because they fail to perceive that apart from the rules and regulations of foreign trade, there existed in contemporary literature a body of doctrines—ill-formed and even amorphous as they may be—which can claim to belong to an intellectual plane not to be conceded to mere commercial policies.

One of the earliest accounts of the present subject is obtainable from Adam Smith. Book IV of *Wealth of Nations* deals with 'two different systems of political economy, with regard to enriching the people', *viz.*, (1) the system of commerce and (2) the system of agriculture. The first chapter is devoted to an exposition of the principle of what he styled 'the commercial or mercantile system'. We shall attempt in the next few paragraphs a summary of this chapter, and on the basis of it we shall next endeavour to find out the actual meaning Adam Smith attached to the phrase 'Mercantile System' of which he investigated the 'principle'.

The chapter begins with a reference to the popular notion that wealth and money are synonymous. This idea, according to Smith, was strengthened by Locke's alleged statement that gold and silver were 'the most solid and substantial part of the moveable wealth of a nation', and further reinforced by others who, while agreeing that the real wealth or poverty of a country 'depended altogether upon the abundance or scarcity of consumable goods', nevertheless advocated the accumulation of precious metals intimes of peace, so that when occasion required they might provide wherewithal to carry on foreign wars These ideas, said Smith, led to an exaggerated importance of precious metals, and their exportation abroad began to be prohibited by all nations. With the growth of commerce, however, the prohibition

*The viewpoint, however, is never explicitly stated by its upholders, and is in most cases left to be inferred from their writings.

proved to be extremely inconvenient to the merchants who began to represent that the better way of preventing the exportation of precious metals from a country, was by so regulating commerce as would turn the balance of trade in its own favour. The argument convinced parliaments and councils, and 'treasure by foreign trade' became forthwith a fundamental maxim of political economy.

Adam Smith next went on to show how it was extremely useless for a Government to watch the balance of trade, as neither the importation of precious metals nor their exportation could be prevented if the 'effectual demand' for them exceeded or fell short of, the available stock in a country. If, notwithstanding the play of the natural forces (which is all the more effective owing to the comparative ease of transporting precious metals), there were to be a dearth of money in a country, barter or paper money would immediately supply its place,—this again showing how useless it was 'to watch over the preservation or increase of the quantity of money in any country'. Scarcity of money was a myth, and in most cases it only meant a person's inability to buy it or borrow it.

Nor was the accumulation of precious metals to be justified for their natural durability. If accumulated beyond need, the loss attending their unemployment, would be so great that they would forthwith leave the country, and no law would succeed in preventing their exportation.

As for financing foreign wars with accumulated treasure, Adam Smith thought that financing ultimately depended upon 'commodities', *i.e.* upon 'the annual produce of the land and labour' of a country. At any rate, accumulation was not necessary for 'the sovereigns of improved and *commercial* countries ....because they can generally draw from their subjects extraordinary aids upon extraordinary occasions'.

The next few paragraphs showed how the principal benefit from foreign trade, far from being the importation of gold and silver, consisted in (1) giving value to the superfluities of a country, which exchange for foreign articles of which there is need, and in (2) improving its productive powers so as to 'augment its annual produce to the utmost' and with it 'the real revenue and wealth of the society'. Thus the discovery of America benefited Europe, not by the cheapening of gold and silver, but by opening up a new market which improved the productive powers of labour. The East Indies trade offered exactly similar advantages, and if the results were not according to expectations, it was because trade here was not as free as it should have been.

Concluding, Smith repeated the 'popular notion' that wealth consisted in money or in gold and silver, and by placing it in rela-

tion to the Balance of Trade theory, he showed how it led to (1) restraints upon importation and (2) encouragement to exportation. (The next five chapters were then devoted to a detailed discussion of the specific forms which these restraints and encouragement assumed.)

This rather lengthy summary of the opening chapter of Book IV does not, it is hoped, leave out any material point. It will be seen that the description of the 'system' as such does not occupy the whole of the chapter. That description ends with the first ten paragraphs, the rest of the chapter being devoted to A. Smith's own observations, with the exception, however, of the last five paragraphs in which he returned to an enumeration of the actual methods by which the balance of trade was sought to be made favourable. In course of the first ten paragraphs Smith made the following points by way of description :

(1) that wealth and money in common language were synonymous.

(2) that the prohibition of the exportation of precious metals, which this popular notion led to, was found inconvenient to merchants.

(3) that the merchants, therefore, protested, arguing that gold and silver could be retained within the national boundary only by attention to the balance of trade.

and (4) that eventually 'treasure by foreign trade' became an accepted maxim in the political economy of all commercial countries.

Now, of these four points, the first two, as Adam Smith himself mentioned, refer to ancient practice which was prevalent among the European nations before they became 'commercial'. It follows that the relevant description began with the third point. This, combining with the last, amounts but to saying that the merchants were the original authors of the Balance of Trade doctrine. And if the substance of the last five paragraphs is read with this conclusion, the 'principle' of the 'commercial system' reduces itself into the pure-and-simple import-restrictions and export-encouragement.

Two conclusions follow from the above.

The first conclusion is that when Adam Smith wrote of the Mercantile System, he meant by it the Mercantile System of our definition. He inveighed, that is to say, against a whole group of commercial rules and regulations, which were at the instance of merchants, brought into operation in England and contemporary Europe, for shaping the course of foreign trade in a particular manner.

Adam Smith's own observation would more directly establish this contention. He said :

> "It cannot be very difficult to determine who have been the contrivers of this whole mercantile system ; not the consumers, we may believe, whose interest has been entirely neglected ; but the producers, whose interest has been so carefully attended to ; and among this latter class our merchants and manufacturers have been by far the principal architects. In the mercantile regulations,...the interest of our manufacturers has been most peculiarly attended to ; and the interest, not so much of the consumers, as that of some other sets of producers, has been sacrificed to it." (*Wealth of Nations*, Bk. IV Ch 8 : concluding paragraph).

The second conclusion is that Adam Smith did not take notice of Mercantilism. We mean by this that his treatment of the subject does not indicate that beyond the mercantile regulations of foreign trade, he saw or recognised a coherent body of doctrines which can make for a theoretical system.

What this theoretical system of Mercantilism is actually to be taken for ; whether Adam Smith's indifference to it was deliberate ; these are questions which have naturally to be answered in this connection, and will be taken up in due order. But meanwhile the conclusion seems to be irresistible that it is the emphatically *mercantile* account of Adam Smith that has led to the generally prevalent notion that what needs to be known in this context is only the commercial system (as it obtained in Europe) together with—if one so chooses—its implications in terms of balance of trade. The result is that Mercantile System, Mercantile Principle, Restrictive System, Mercantile Doctrine *and* Mercantilism, have all been used, alike by economists and historians, to indicate just the story of the merchants' protest and all those concrete measures which it occasioned.

Now, the conception of Mercantilism as a theoretical system, raises two questions :

(*a*) How far is it valid to hold that Mercantilism does comprise a theoretical system ?

and (*b*) What is the actual content of that theoretical system ?

The first question has been answered to our advantage by Professor Heckscher whose observation we quote below at length :

> "It has often been discussed whether mercantilism comprised a theoretical system or not, but this question is badly stated. For everybody has certain ideas for his actions, and mercantilists were plentifully provided with economic theories on how the economic system was created and how it could be influenced in the manner desired. As a proof that there was no uniform outlook, many writers have pointed to the undeniable fact that different mercantilists put forward mutually antagonistic demands ; but this is proof of the uniformity rather than the contrary. For to the extent that contrary demands emanated from the same or

closely related principles, this disunity on matter of practice indicated that the premises themselves did not rest on practical interests but on more or less generally recognised principles. And in fact this was so, and to a degree which one can scarcely imagine unless one has studied the matter itself......

"There is another and much more difficult question, which is whether mercantilism produced any scientific theory and consequently an economic science. The answer must be arbitrary to the extent that there is no objective standard for deciding when a view has become clear enough to be called scientific. The first attempt to portray the workings of economic life as a consistent whole was probably that of the physiocrats, and no mercantilist arrived at such an outlook before their time. But another criterion of the existence or absence of a scientific outlook can be found, in reply to the question whether discussions were intellectually "autonomous", *i.e.* whether the theories enunciated really aimed at objectively accurate solutions, irrespective of their practical outcome. It seems difficult to deny that in fact some part of the 17th century economic thought fulfils these requirements. And so it cannot be gainsaid that even at that time there was really a scientific mercantilist theory if only of a rudimentary kind......."

(*Mercantilism* by Heckscher. Vol. I, p. 27)

Professor Heckscher, it should be stated, does not make any distinction of titles such as we have made between Mercantilism and the Mercantile System. This will be evident from his following remark :

"The major part of the voluminous fourth book of the *Wealth of Nations* was devoted to a criticism of mercantilism ; it attacked its commercial policy (as well as its closely related colonial policy), and is an emphatic piece of free trade propaganda."

(*Ibid.* Vol. II, p. 332)

But while he sticks to 'mercantilism', he recognises nevertheless the different facades of its complicated structure, and recognises too the existence of a theoretical system behind duties, bounties and drawbacks.

Our next question concerns the actual content of Mercantilism. We have defined Mercantilism as comprising a theoretical system, the result of a speculative analysis which developed around the core of a balance of trade theory a uniform body of doctrines aiming at 'objectively accurate solutions' of contemporary problems.

Let it be at once clear that the main economic problem of contemporary Europe was the problem of war or emergency finance. The period in question "was marked by the formation of great states with powerful Governments at their head. These Governments required men and money for the maintenance of permanent armies, which........were kept up on a great scale."* It would appear that the

*Ingram : *A History of Political Economy* (1919), p. 36

imperishable and readily exchangeable character of the precious metals suggested a solution of this problem of war finance in terms of the accumulation of State treasure;[1] and, indeed, Mercantilism as a theoretical system first emerged out of this problem by adapting the *mercantile* Balance of Trade doctrine to warlike purposes. So far, however, Mercantilism was only the theoretic counterpart of the Mercantile system.

But, as it happened, instead of ending there, it forged ahead. The Balance of Trade doctrine came to be only the centre around which there eventually clustered a whole group of inter-allied doctrines revealing a fundamental outlook. Arising, however, out of the problem of emergency finance, Mercantilist speculation naturally gave importance to problems associated with the life of the State, and it thus came about that the Mercantilist literature abounded in thoughts and observations which, if collected and pieced together in proper sequence, would make for a self-contained theory of public life and finance. The theoretical system which Mercantilism stands for, is thus nothing other than a whole system of public economy, having behind it a distinct political philosophy of which the keynote is power.

This last requires elucidation. Against the economic background of public finance, Mercantilism tried to unfold a philosophy of power.[2] The power in question related to the State.[3] Mercantilism wanted to strengthen the State authority itself, rather than the interests of the subjects as such. It directly concentrated on the power of the State, *i.e.* its external power in relation to other States; and so fervent was this solicitude for the external sovereignty of the State that all economic activity and social forces were con-

[1] Adam Smith's observations do not contradict this. Cf. "It is not *always* necessary to accumulate gold and silver, in order to enable a country to carry on foreign wars." (W/N, Bk IV, Ch. 1, Para 20. Italics ours.)

"The accumulated treasures of the prince have, *in former times*, afforded a much greater and more lasting resource." (*Ibid.* Para 25. Italics ours.)

[2] Writing on the Mercantilists, Price in his *Political Economy in England* observes as follows: "Their general object was the growth of the power of their country......Henry VII, first of the Tudor rulers, 'bowed', it was pithily said, 'the policy of the realm from consideration of plenty to consideration of power.' 'Defence', Adam Smith acknowledged, was of 'much more importance than opulence.' (p. 30)

[3] Read Professor Heckscher's reason for particular emphasis on the *State* in the context of Mercantilism, and his objection to 'nationalism' etc. on grounds of anachronism. (Hk. II 14)

sidered subordinate to the States' interest in power. Further, power was considered as an end in itself. As Professor Heckscher puts it, 'Mercantilism as a system of power was... primarily a system for forcing economic policy into the service of power as an end in itself'. The ultimate purpose was the acquisition of power, and means to this end was sought among the tools of public finance. Colbert who substituted 'war' for 'power', said, "Trade is the source of (public) finance and (public) finance is the vital nerve of war". In post-mercantilist times, people would have explained the need for a powerful state mainly by saying that it provided an indispensable condition for the spiritual and material welfare of the nation. Under mercantilism the argument was usually the other way about: the wellbeing of the subject had the function of furnishing the necessary support for the power of the State'. Much of the mercantilist outlook becomes clear if we keep in mind that in the mercantilist ideology power was considered an end in itself, and 'that economic life was mobilised for political purposes.'[1]

We have said above that the theoretical structure of Mercantilism was mainly fashioned by the tools of public finance. This, however, is not to say that Mercantilism did not cover any other branch of political economy. If we do not emphasise those other particular economic theories separately, it is because their complementarity with those of public finance, justifies their treatment within the compass of the main subject. Take for example the mercantilist theory of value which centred around Petty's problem of how to make a *Par and Equation* between Land and Labour, so as to express the Value of any thing by either alone. The common denominator chosen was money, which led Petty to the determination of the money value of the people, by 'capitalizing—so far as England was concerned—an annual yield of £25,000,000 worth of wealth, which was found necessary for making up an aggregate of £40,000,000 worth of wealth, representing the total expenditure of the nation, of which £15,000,000 was yielded by the 'total effects' of the nation amounting to £250,000,000 excluding population.[2] But the calculation had its ulterior object in terms of public finance. For, having ascertained the various components of national wealth, Petty proceeded to use them as a basis for apportioning taxes.[3] He proposed 'various taxes intended to place upon the possessors of each source of income such a proportion of the aggregate burden as the capitalized amounts of their respective incomes may bear to the national wealth....'.[4]

[1] This paragraph is based on Hk II Pt. 2 Ch. 1

[2] *Verbum Sapienti*, Ch. II

[3] Ibid. Ch. IV.

[4] Hull's Introduction to Petty's Economic Writing, Vol. 1, p. lxxii

One other question remains to be answered. How would we account for Adam Smith's indifference to Mercantilism as distinguished from the Mercantile System on which he wrote? The explanation seems to consist in that he considered this whole subject to be merely 'a popular economics', and that 'not in the best sense of the term' either. Perhaps the popular notion that gold was wealth[1], particularly weighed with him in his evaluation of the system which, having not been 'taught by any School' apparently suffered in his eyes by contrast with the Agricultural or the Physiocratic System whose exponents, reputed as economists, made the 'first attempt to portray the workings of economic life as a consistent whole'. Smith did not also refer to any of the celebrated Mercantilist writers except Thomas Mun, the title of whose book, more than its contents, attracted his none-too-careful attention.[2] But, as Bonar points out, "though Adam Smith turned to Mun when he looked for a discriminating statement of the Mercantile views, it is clear from his various criticisms on them in the 4th book of *Wealth of Nations* that he does not regard them as a body of arguments and conclusions carefully worked out by thoughtful men from desire of truth, but rather as a scheme of commercial policy which different governments had adopted on the advice of interested merchants and manufacturers. Its principles, so far as they were ever elaborated into a system, seems to him to be the maxims of practical men of business, who know how trade benefits themselves and have no concern how it benefits the nation at large."[3]

In his *Industry and Trade*[4] Marshall accuses Adam Smith of being responsible for the belief "that Mercantilism was a definite, unified body of doctrine; and that it worked mischief by inventing diverse shackles which hampered the natural freedom of trade." "We now know", adds Marshall, "that it was not a body of definite doctrines which arose suddenly, quickly overcame all minds, and after a time was wholly discarded."

[1] Not that Adam Smith was himself free from it. The following observations undoubtedly betray hesitation: "Money, no doubt, makes always a part of the natural capital; but .. ..it generally makes but a small part, and always the most unjustifiable part of it." (W/N, Bk IV, Ch. 1, Para. 17)

"To import the gold and silver which may be wanted......is, no doubt, a part of the business of foreign commerce. It is, however, a most insignificant part of it." (*Ibid*, para 31)

[2] The title is given as "England's Treasure *in* Foreign Trade."

[3] Bonar: *Philosophy & Political Economy*, Ch. 7, pp. 130-31; see also W/N, Bk IV, Ch. 1, para 10.

[4] Appendix D, page 719.

Now, in so far as Marshall emphasises that, according to Adam Smith, Mercantilism, in actual fact, *worked* mischief and *hampered* freedom of trade, he only corroborates the view that Smith discarded Mercantilism as a theoretical conception, and spoke only of the Mercantile System as it actually operated through the commercial rules and regulations. But there does not seem to be any great objection to limiting the principles of the Mercantile System (for that is what Smith actually wrote upon) to a definite body of doctrines, of which, in fact, the Balance of Trade doctrine was one. The "mercantile theory", as Dr. Cannan rightly says, "should be the doctrine that States must not leave the balance of trade to take care of itself, but must encourage exportation and discourage importation."[1]

As for the other contention of Marshall that Mercantilism 'was not a body of definite doctrine which arose suddenly, etc.', the accuracy of it would depend on Marshall's own conception of Mercantilism. This however, seems to be in a line with the conception of Adam Smith,[2] and, so interpreted, the observation he makes on it, will earn universal approval. No economic or social system, indeed, can be put between exact dates like 'Colbert or Cromwell', - much less 'a tendency of thought and sentiment which had its roots in the far past.' But the degree of indefiniteness which we would thus associate with the Mercantile System—in so far, for example, as it would pretend to be 'a satisfactory description of the economic characteristics of that period intermediate between the Middle Ages and the modern age; beginning 'with American Independence, the French Revolution and a number of concurrent mechanical inventions',—is applicable perhaps with far less justice to Mercantilism conceived as a theoretical system bearing on public economy, which was inspired by an intellectual faith of which the political core was power. Mercantilism, indeed, is a more definite concept.[3]

The fact that it arose out of the exigencies of public finance should not detract from its theoretical character. Nearly all intellectual speculation has its origin in the practical problems of contemporary life. What is relevant is a scrutiny as to whether the principle or principles which lead to the laying down of final prescriptions, rest on 'interests.' This may not be detectable all at once; but often, as we have learnt from Professor Heckscher,[4] if the inferences and prescriptions, as drawn by different exponents, are found to be mutually antagonistic, the presumption goes in favour of their principle being untainted by any practical interest. Mercantilism

[1] *Review*, p. 13

[2] *Cf. Industry and Trade*, App. D, 5.

[3] *Vide* below

[4] *Vide* quotation from Heckscher (Vol I, p. 27) pp. 5-6 supra

eminently satisfies this test. To take but one example, consider the great lack of unanimity which existed among the mercantilists on the subject of usury or interest[1] Starting from a common twofold principle that Power is acquired by money, and that money and trade go together, Mercantilists in general sought to lay down methods by which trade might flourish and the kingdom abound in treasure. But they put forward 'mutually antagonistic demands', some of them pressing for 'high usury',[2] and others advocating just the opposite course. They were not, that is to say, unanimous as to whether money supply needed for initiating trade, could be increased by raising or lowering the rate of interest. The two 'contrary demands' emanated from a common initial principle, the 'disunity' only indicating that the principle itself did not rest on 'practical interests.'[3]

As for the 'definiteness' which, we claim, can be assigned to Mercantilism as a theoretical system, the argument for it, can be thrown into relief by showing its application to the classical theory of economics. If the classical school is to be identified with one of its prescriptive offshoots, *viz.*, Free Trade, it will certainly lose its boundaries both in time and content, and, consequently, much of its determinate character. For, the *practice* of Free Trade has never been confined to any *one* country or any *one* period. But in so far as the Classical school represents the broad *principle* of prosperity through the growth of 'real revenue and wealth',[4] it has undoubtedly a precise existence, traceable to the speculations of certain thinkers who wrote, although not always in support of one another, yet against the background of that broad principle. In a similar way, if Mercantilism is taken for the practical commercial policies of which the aggregate has been distinguished in this paper as the Mercantile System, it will undoubtedly lose in precision. For, the practical aspects of the 'balance of trade' have never been the obsession of any *one* people or period.[5] But much as they might have differed in details, the Mercantilist writers recognised one broad principle, *viz.*, the principle of power through the acquisition of precious metals, and this alone should lend 'definiteness' to the body of literature that developed around it.

[1] On this subject read my article '*Mercantilist View of Money in relation to Public Finance*' in Indian Journal of Economics, January, 1943, pp. 263-67, specially.

[2] Cf. Mun's *England's Treasure*, Ch. XV, pp. 78-79 et seq.

[3] At a later period the Corn Law controversy between Malthus and Ricardo provided an exactly similar test for Classical economics.

[4] W/N, Bk IV, Ch. 1, para 31.

[5] In his *Industry and Trade* (1919) Marshall says, it 'has not yet completely disappeared.' App. D. 1. p. 720.

WAR AND RECENT TRENDS IN INDIA'S FOREIGN TRADE—II

By

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1940-41.

The full adverse effects of the war factor on India's foreign trade were to be seen in the trade returns for 1940-41, the first full fiscal year of the war period and the year which witnessed the complete loss of the European markets to this trade. Both the imports and exports of India declined, the former by about 8½ crores and the latter by 17 crores. Imports of manufactures declined by a further 2½ crores than in the previous year, thus giving an opportunity for the development of local manufactures. Imports of foodstuffs showed a substantial decline of 11½ crores, the major items being 5 crores under rice and 3 crores under sugar, with serious adverse consequences on the food supply position in this country. Regarding imports of raw materials, there was an increase in kerosene, kerosene products and raw cotton. But the imports of machinery showed a decline of about 3½ crores, under almost all the major heads *viz.* prime motors, electrical machinery and cotton textile machinery. That industrial production expanded in various directions in India during the war-period has already been mentioned. What then does this decline in the imports of machinery show? It indicates that expansion took place more through working double and multiple shifts and increasing production to the fullest existing capacity, but not by the installation of new plant and machinery and development of new industries to any appreciable extent, taking advantage of the war factor. Due to the preoccupation of Great Britain with the production of war materials, conservation of the dollar-exchange, and difficulties in finding shipping space, it was not apparently possible for India to import machinery to the extent needed.

On the export side, while the value of total exports declined by about 17 crores, as above stated, that of raw materials alone declined by an alarming figure of 24 crores, but the exports of foodstuffs and manufactured articles increased by about 7 crores. There was a rather spectacular increase in the cotton manufactures exported, *viz,* 8 crores, while the jute manufactures exported declined by about 3½ crores. Several other industrial articles, such as boots and shoes,

building and engineering materials, chemicals, rubber manufactures, paper, manufactured tobacco etc., recorded varying increases. The increase in exports of cotton manufactures denotes the extent to which the Indian Textile Mill industry has been able to advance and capture export markets, taking advantage of the favourable situation created by the war. Though this was a welcome feature, the most sorrowful one was the drastic decline of 24 crores in the exports of raw materials which form the mainstay of India's foreign trade. Almost all the important commodities, with a few exceptions, were affected *viz.* hides and skins, oil seeds and cakes, raw cotton, raw jute and raw wool.

The changes in the composition of India's foreign trade are noteworthy. It was characteristic of a period when a country's industrial advance was proceeding at an accelerated pace, that there should be on the one hand an increase in the exports of manufactured articles accompanied by a decrease in their imports, and on the other hand, an increase in the imports of raw materials coupled with a decrease in their exports. From the figures of 1940-41, this trend was prominently in evidence. These changes were the outcome of a large number of factors, already mentioned above, and they were also in conformity with certain *a priori* expectations regarding the effects of one of these factors, *viz.*, *Industrialization.*

During the year under review, there were also changes in the directions of trade. The total value of imports both from the Empire countries including the U. K., and foreign countries, showed a decline in the aggregate. Re-exports, though there was a slight rise of about 2 crores in the total value of the goods exported to the Empire countries, there was a decline in the exports to the U. K. of about 7½ crores. The total value of exports to foreign countries showed a drastic decline of 20 crores, due to the complete elimination of the European markets. Exports to Japan declined by about 9 crores, while the imports from that country improved.

In discussing the trade position as above, it is important to note that since the outbreak of the war, exports from India by the Government for defence purposes have not been recorded in the Trade Returns, and since India has been exporting vast quantities of materials and foodstuffs to different theatres of war, the actual value of exports is considerably higher than that indicated by the recorded figures. Further, it is also important to note that a large part of the loss due to the closure of the European markets was made good by increased exports to Empire countries and the U. S. A. Though the value of exports from India fell in 1940-41, when compared with 1939-40, it was higher than that for 1938-39 or even 1937-38. The value of imports, however, showed a relatively smaller

reduction. The normal balance of trade in merchandise was adversely affected, the total favourable balance amounting to 42 crores only, as compared with 49 crores in 1939-40, though it still remained considerably higher than in 1938-39 or even in 1937-38.

The aggressive attitude of Japan towards Great Britain and America and the conclusion of an agreement with the Vichy Government for the military occupation of Indo-China, menacing thereby the peace of the Far East, compelled Great Britain, the British Empire and the U. S. A. to take stern measures against that country. As a first step, Japan's assets in the latter countries were freezed, thus virtually cutting off its trade with them. The Indian Government also followed suit and an order issued through the Reserve Bank of India gave instructions to all banks in July 1941 that "accounts of all firms and companies incorporated therein or under the control of the residents in those territories and operating in India shall be blocked". As a result of this freezing order, the Indo-Japanese trade was virtually at a stand-still.

1941-42

The actual entry of Japan into the war in December 1941 further changed the course of India's foreign trade, for Burma, the F. M. S., Dutch East Indies, Thailand, and Hongkong disappeared from the picture one by one, but there was a corresponding addition to the shares of some other countries notably East Africa, Iran and Australia, so that our foreign trade could maintain its level with no unreasonable limits of decline. There was, of course, a decline as a result of many Allied reverses in our Empire trade by about 38%, but some countries became bulkier trade partners. For example Australia doubled its importance and so did Iran—especially in respect of oil exports. Ceylon was another large participant and our trade with the U. S. A. also greatly increased, while Canada came into greater significance.

Due to Japan's entry into the war, textile imports from that country into India recorded an acute fall of about 12 crores. Again, imports of grains fell by about 10½ crores, due to the loss of Burmese rice and Australian wheat, which contributed not a little to the present food shortage problem in our country. There was also a great reduction in our imports of wood and timber, chiefly from Burma, as also of chemicals, drugs and medicines, hardware, dyes and colours, paper etc. There was a total fall of about 54 crores during 1941-42 in our imports.

But our export trade was well maintained on the whole during this period, though a few important commodities did suffer very badly. Raw cotton exports presented a serious problem, as Japan served us no more as a market and there was a fall of about 11 crores,

though there was a more than off-setting rise in the exports of cotton manufactures, of about 20 crores. Only as regards jute, war has meant an irresistible disaster, for many of our important markets have been lost.

During the period under review, there was one important development in the matter of India's foreign trade and that is, the activities of the U. K. C. C. which is mainly an off-shoot of the war. As is well-known, it was established for the purpose of undertaking certain operations which could not be performed adequately by normal commercial enterprise or which lay beyond the scope of private trading concerns, in connection with the conduct of trade in war conditions. The main activity of this corporation in India was as regards the supply of essential commodities to Russia. It was designed to carry on the trade between India and Russia, with sympathetic treatment from the Government of India in respect of provision of adequate carrying capacity, arrangement of priority claims and regulation of traffic to avoid congestion at parts. Thus, the U. K. C. C. can be compared to a well-organised, Government-encouraged and monopolistic trade concern. It is not possible for us to describe in detail its modus operandi, but the activities of this foreign commercial body in our country has aroused much serious concern on the part of Indian exporters and other businessmen. The first allegation centres round the semi-Governmental nature of its organisation, for its capital has been subscribed by the British treasury and therefore it is entitled in matters of broad policy to consultation with the British Government only. The privileges it enjoys have been the basis of the next set of Indian charges on it. It is connected with the Supply Dept., at least in some matters, and is a beneficiary of the activities of the purchasing organization of the Supply Dept., in some other respects. The advantage lies in the low prices at which it can attract necessary supplies. This would certainly amount to a discrimination against, and would sometimes be at the expense of, Indian exporters engaged in their respective trades. (But the U. K. C. C. and the Government refute this charge by referring to a few open market purchases of the U. K. C. C.) The third allegation is in respect of the corporation's transport priorities, railways as well as shipping, causing hardship to private traders. Here again, the official justification is based on the essential nature of trade the corporation is carrying on. The monopoly in trade with some countries, like Russia and Persia, enjoyed by the U. K. C. C. and that monopoly in some essential commodities, is a further point of criticism Indian businessmen feel themselves obliged to level against it. Lastly, the unlimited resources it has to its credit result in a powerful attraction to supplies of the required goods and sure to make it an invincible competitor with private traders. This inequitable competition between the U. K. C. C. and the

Indian businessmen is like rivalry between a favoured strong unit and a self-dependent weak group.

Thus, the affairs of the U. K. C. C. are shady and antagonistic to the development of India's foreign trade. When our contact with other countries, maintained through the normal channels of import and export trade, has been snapped under the strain of war conditions, it is the duty of the U. K. C. C. to establish trade links with them all and to assist in the disposal of our surpluses in such commodities as raw cotton and jute to the other countries. Instead, it exports wheat to Persia to relieve a famine there, and engages itself in purchasing and exporting such foodstuffs as grains and pulses, flour, oil and oil seeds etc. from India, thus depriving our country of these necessary commodities. It is highly regrettable to note that this corporation will have a continued existence, even after the war, much to the detriment of India's foreign trade.

The picture of India's foreign trade will not be complete without a passing reference to the Lease-Lend Act of the U. S. A. and its application to India. In the words of the American President, "It is a prime mechanism through which the United Nations are pooling their entire reserves. Under the Act, we send our arms and materials to the places where they can best be used in the battle against the Axis. Through reciprocal lend/lease provisions, we receive arms and materials from the United Nations, when they can best be used by us."

The lease-lend envisages an overhauling of trade conditions, through the U. K. and the U. S. A. collaboration, by placing trade on a freer basis. As such, how far it would be beneficial to India is a questionable fact. Originally, the lease-lend applied to India was through the U. K. But India has recently been sought to be brought into direct communion with America in respect of these transactions. (The first portion of the lease-lend mission to India arrived here on 24th March 1943 to establish its Headquarters at New Delhi.)

The whole scheme has, however, been operating rather secretly and the Indian public are worried about the meagreness of available information. When asked about the nature and amount of lease-lend goods so far received in India (till July 1943), the Finance Member replied that the Government of India were still engaged in the task of completing their record of lease-lend aid and reconciling them with those which the Indian Supply Mission in America has been asked to maintain and that it would be some time before the task was completed and until this stage was reached it was not possible to quote any figure or to attempt to determine the respective shares of India and His Majesty's Government.

Besides this 'in camera' business, there are a few points of

criticism worth mentioning in this connection, *viz* :—(*i*) The volume of help received by India so far is comparatively very small. For example the U. K. received £ 1200 million of aid during 1942-43, while India received but a paltry amount of 43 crores (rupees) according to available figures. When the needs of India for machinery, tools and capital equipment for defence as well as industrial purposes are taken into account this assistance is insignificant and of negligible value.

(*ii*) Secondly, the method of repayment after the war is an open field for various conjectures being made. India may not be able to give back physical volumes of machinery tankers, planes etc, whose proper condition after the war is problematic. Nor does she abound with the necessary plant for their prompt production. So the forced alternative to the improbable reduction by America of her claims against us, would be to play ourselves into British hands, who may transfer their physical stocks on our account redeeming themselves with our raw materials. This may be more probable than the U. S. A. herself bidding for our raw materials, many of which she herself has.

(*iii*) Thirdly, the help India is rendering to America and the United Nations consists of immense man-power, besides such strategic materials as mica etc. How our human sacrifices could be evaluated in terms of monetary returns is a sufficiently enigmatic problem to make us look at it rather suspiciously.

(*iv*) Fourthly, as above stated, if the aim of the lease-lend is to place trade between nations on a freer basis, as far as India is concerned, it is a well-known fact that free trade and freer trade worked colossal havoc in the past to Indian economy. Being forced to repay America in a variety of ways, in cash and in kind, India may now be shackled in a fresh set of entanglements which may create conditions for a wrose economic India. British and American collaboration, on the basis of the Atlantic Charter, can bring no better fortune to India, unless India keeps a watch on post-war problem of repayment or return.

(*v*) Fifthly, while other countries, like Australia, are entitled to choose the nature of their imports from America, we are denied that privilege. It is what Britain decides that India should have that we are to get from the U. S. A., so as to fit in the Allied strategy and it is not what we deem necessary for better war effort or a firm industrial foundation.

(*vi*) Lastly, there are some cost implications working unfavourably against India. We export things produced under conditions of cheap labour costs, while we import from America goods produced by dear labour. If the latter are what we cannot manage to avoid

in our own interests, this point of criticism loses force. But the extra-Indian interests in which this exchange mechanism is carried on, at once add strength to this argument *viz.* why we should exchange more of our human sacrifices (translating our exports of men in these terms) for less of others with no considerable net benefit.

FUTURE OF OUR FOREIGN TRADE

A competent and comprehensive study of India's foreign trade is a stupendous task and an essential feature in the equipment for a comprehension of the true India, past present and future and we could give only a few trends thereof in the limited space of this article. The aim of all political and religious reform is, after all, ultimately and largely economic betterment. Although the stimulus to larger foreign trade has not been given an important place in the progressive economic programme of Mahatma Gandhi, who concentrates on the problem of filling the idle half of the time of crores of agricultural peasants of India by domestic or cottage spinning and weaving and so doubling their daily incomes, it is quite clear that no large improvements in the standard of living are possible without real trade development, properly so conceived.

The future of India's foreign trade is, to our mind, largely connected with the problem of the utilisation of her sterling balances. Granting that there would be no post-war depreciation of sterling, British and other foreign investments in India may be acquired with the help of these sterling balances. It is proposed to establish a Reconstruction Fund with these balances and there was hostile criticism that the scheme was not for the reconstruction of India but for that of British industry. This is, of course, a sample of suspicion and prejudice against the British, but there are good grounds for such criticism, for recently, there were comments in the British Press to the effect that India would be the first large post-war market visible for Britain's heavy industry. The proper approach to this question is, however, this—India is making a certain contribution to the war effort of the United nations. If, as we all hope and as recent trends indicate, these efforts result in complete victory, India will have certain claims to make on the post-war world on the basis of her contribution to the common victory and on the basis of her needs. I believe that India will be permitted to argue her own cause and explain her needs. Then she will be able to receive her due share of what the productive resources of the world after war can afford. Why should we have any suspicion about this? As an auditor, I would approach the question without any preconceived suspicions.

If goods required for the reconstruction and re-equipment of India are available in England, why should they not be imported

from that country? Is there any disadvantage in doing so? Or is there any special advantage that would be gained by India if such goods are imported say, as Sir Cowasji Jehangir put it, from the U. S. A.? For sometime after the war, goods will be scarce and it will be difficult to obtain them. Moreover, there are bound to be certain restrictions, embargoes, and conditions of control and as far as one can see, there is nothing in the scheme of the Reconstruction Fund insisting on India getting its capital equipment from England and England alone. "It is entirely to the advantage of India to look at the problem from the point of view of international co-operation. We have to remember that India is only a part of the world—a world which is getting more and more impossible to pursue an isolated policy. If there is one thing that the war is teaching us, it is the impossibility of any country living alone in its own world. India will be dependent on the resources of great countries after the war in order to build up her own productive resources. She will not be able to improve her standard without the closest co-operation and assistance from more powerful and better developed countries and therefore these problems must be looked at entirely from the point of view of co-operation in international matters".

The above view is, of course, entirely oppossed to the principle of Economic Nationalism or Self-sufficiency, which was developed after the First Great War of this century. The advocates of Economic Nationalism suggest that there should be Government regulations of commerce in order to keep up the standard of living of the people at a fairly high level. They advocate the conclusion of bilateral commercial agreements, to which reference has already been made, with important foreign countries so that exports can be increased and external trade stabilised It is true that commercial bilateral treaties can be effectively used for promoting industrialization of India, which is one of the most important problem in the post-war world. One writer, however, observes that "Bilateral control of foreign trade can be useful only if it is a part of a comprehensive and well-thought out economic plan for India along national lines". Lack of fiscal autonomy makes a comprehensive national economic policy impossible and in order to achieve her ideals India should possess full fiscal autonomy to regiment trade and use all the levels of economic control—both tariff and non-tariff devices. Since the circumstances are more favourable to India at present, her debt to the United Kingdom having been cleared and her having become a creditor country, she can probably "dictate" terms of trade to others, and hence she need not wait passively "like Micawber for something to turn up", but go ahead actively planning for the building up of her future trade to her best advantage.

TAX RELIEF *VS.* 100% E. P. T.

By

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Although there may be differences of opinion as regards the extent to which inflation is responsible for the present rise in prices, yet no one, official or non-official, today disputes the fact that it is one of the main causes of this unprecedented event. We do not propose to go into the matter here, not do we endeavour to make any statistical measurement of the same. Our present task is, however, to consider two contradictory tendencies that are playing their part in our economy. On the one hand, there is the need for the industrialisation of the country; on the other, there is the need—a more urgent one—for checking inflation. As an aid to the former, a case is made in some quarters for tax relief; as a remedy of the latter, a cent per cent E. P. T. is suggested by others. This is the dilemma and the economists are divided. A way out is urgently called for.

The case for tax relief to industries, with a view to encourage corporate saving, and thus to stimutate the industrialisation, is made by some. Theoretically, the argument runs that in these days of 'sublimated capitalism', corporate saving, which has come to acquire so much importance, should be encouraged by tax relief measures. From practical considerations, it is argued that in India saving motive among private persons is very low, that the rich invest their capital in land rather than in industries, and that the available capital in Indian money market is meagre. Hence the necessity for encouraging corporate saving which will be more readily invested in industries.

But, I think, the case is not sufficiently strong. For, at present, greater emphasis is laid not so much on tax relief of corporate saving as on a scheme of direct taxation for the express purpose of diminishing the proportion of national income applied to saving and also on measures for the redistribution of incomes in a way likely to raise the propensity to consume; for, an increase in the latter will, except in conditions of full employment, increase the inducement to invest. The history of taxation in different countries also does not go in favour of the exponents of tax relief. Thus in postwar Britain, the abolition of taxation of corporate saving took place not because it was considered necessary in the interest of the industries themselves,

but because "other means had been devised for dealing with the problem of undistributed dividends". In U. S. A., the idea has never found favour; on the contrary, corporate savings are taxed as special categories and at higher and progressive rates. The Paper Plan of Germany may, however, be regarded as an exception; but even this plan granted remission only for a short period and that, too, not to the fullest extent of the tax. B. sides, income and corporation taxes were not considered to be restrictive on production. Be it noted that this plan was adopted at a time when the country was passing not through a boom but through the severest slump, it has ever experienced.

To turn to our own country, in recent years the liquidity preference of the people has considerably declined and there has been a considerable increase in the willingness to save, of which we can have a general impress from the volume of deposits in the banks, post offices, etc , and from the volume of investments, both at home and abroad. There is another fact to be considered. Ever since the outbreak of the war, the most predominant and universal tendency is for the rate of interest to remain low. India also is no exception. In her case, the repatriations of sterling debt have all the more increased the liquidity of the market. But in spite of this plethora of investable funds and absence of restrictions on new capital issues till recently. the number of Companies floated in this country since the outbreak of the war is, according to some estimates, less than those floated in the three preceding years of peace.

Obviously, this does not make a case for tax relief of corporate saving. In the case of old concerns, even if we leave aside the present inflationary spiral, any tax relief measure will lead to over-expansion and consequent complication. And so far as new concerns are concerned, there is no need for tax relief of corporate savings; for, sufficient capital will be available in the money market for this purpose. But if still no adequate floatations are taking place, (leaving aside, of course, the present restrictions), this is not due to the fear of taxation but to some other fact lying outside that sphere, I mean, in the industrial and fiscal policy of the Government.

But while I have rejected the case of tax relief, I am not in favour of 100% E. P. T., as advocated by some economists, who over-emphasize the inflationary development. If x by regarded as the pre-war circulation of currency, then the extent of inflation upto, say, March, 1943 was x + Rs. 520 crores × velocity of circulation. But a part of this is counteracted by 'inflated employment' and a part by increased 'hoards.' That which remains is only responsible for the rise in prices. But this cannot be the only factor. Hence from this standpoint, the case for 100 % E. P. T. is weakened.

Theoretically, also, the case is not at all strong. To summarise the views of the authors of Taxation of War Wealth: a 100% tax is considered unduly restrictive to the concern on which the tax is levied. For the concern is not only not able to reap financial advantages under the pressure of the tax, but it cannot often avoid losses. The temporary character of the tax gives an inducement to abuse and evasion. Of course, the possibility of evasion is much restricted owing to severe wartime control; but the tendency remains an extremely dangerous one both to the power of the country to face the postwar boom and also to the current efficiency of the war effort. Another result of a 100% E. P. T. is to diminish the resistance of the employers to war bonuses and to rises in wages, which, in their turn, add further stimulus to inflation. As the war draws to its end, evasion must be expected to be on such a scale that it will be practically impossible to maintain an E. P. T at confiscatory rates for any length of time. This is why the situation becomes particularly critical in the years immediately after the war. For, as soon as the E. P. T. is withdrawn in postwar period, there is a disorderly increase in business spending, particularly on the renewal of equipment for adjusting the industry to peacetime needs, which inevitably leads to boom. Hence an excessively high rate or a 100% tax will lead to evasions in wartime and excessive haste over renewal of peacetime industries in the postwar period, both of which are undesirable.

The repercussions of the E. P. T. on the efficiency of production are also not healthy. Any tax puts a strain on the profit motive of the businessman. The strain becomes excessive in case of E. P. T. which is more surely to fall on the margin of production than any other tax. It may, of course, be argued that in wartime it is not any other factor but patriotic zeal that counts most; but in matters economic, economic gain must be kept in the foreground; otherwise, even patriotic zeal may, to some extent at least, suffer.

That is why the measure that has found greater favour in Germany is not high E. P. T., but the "blocking of reserves", in excess of a specified amount, which was to be invested in Government securities, and which would not be released until after the war. This measure is accompanied by important concessions which permitted firms to write up their capital by the amount of accumulated reserves.

The Indian E. P. T. has followed more or less the British practice with this much difference that while the British tax has been raised to 100 p. c. since August, 1941, the Indian tax was raised from 50 p. c. to 66⅔ p. c. in 1941. In 1942, it has been provided that if the assessees pay to the Government a certain amount in excess of this, the Government will hold that extra

amount together with a bonus not exceeding 1/10th of the assessable tax in the form of a deposit, earning interest, which will be blocked for the duration of the war, but will be paid back to the assessee after the termination of the war.

The chief merit of the Indian tax lies in the fact that the rate of the tax is sufficiently low and should not encourage evasion. Although in view of the present inflationary situation, there is a case for raising the rate to some extent, say, 75 p. c., there should not be any idea of raising it to 100 p. c. But in so far as the excess over the taxed amount will be distributed to shareholders, it is necessary that there should be a tax on shareholders which will remove their excess income which is due to the war. The Government may also consider the scheme limiting dividend-payments. But there is another problem, *viz.*, increased bonus to the employees. In so far as this raises the income of the employees engaged in war efforts, inflationary tendency will be stimulated. Hence the need for some form of compulsory saving, which will not only curtail to a reasonable extent the inflated purchasing power in wartime, but will also provide with a fund in postwar period which will give purchasing power to many unemployed, thereby not only enabling them to maintain, to some extent, their standard of living, but also saving the industries from depression, which is inevitably caused by a sudden fall of purchasing power in the hands of the masses.

It should be noted that the provision of deferred payment to the industries out of the proceeds of the tax in the postwar period, which is 1/10th of $66\frac{2}{3}$ p. c., is rather meagre. There is a clear case for raising the amount. In England, the rate is 20 p. c. Besides, the conditions under which the blocked profits should be released is a matter which requires careful consideration. "It would be both simpler and more useful to make the time of release depend on some general criterion, such as the level of employment, while making the right to a refund as definite as possible." For, if there be any uncertainty regarding repayment, that will be a serious drawback to economic incentive.

SUPPLEMENTARY NOTE

The last Ordinance on E. P. T. has introduced charges, to some extent, on lines suggested above. In so far as the monetary aspect of the problem is concerned, the system of summary assessment will at once withdraw very large sums from circulation. Another important aspect of the measure is that if at the time of 'regular' assessment, it is found that a refund is due to the assessee, not only the excess will be refunded but interest on it at 5 p. c. per annum, which may be regarded as a penal rate against Government,

will be paid. From the point of view of incentive, of course, this will not be a step forward in view of uncertainty of any refund; but it will prove a safeguard against wrong assessment. The 5 p. c. interest will also prove a consolation to the assessee that the fund was not idle.

But the more important aspect of the measure is that it provides for compulsory deposit based on existing optional system under which an assessee, if he so chooses, can, after he has been assessed to E. P. T., deposit a further sum not exceeding 1/5th of the E. P. T. and the Government thereupon put aside for his benefit a sum equal to 1/10th of the tax. Under the Ordinance, the deposit of a sum at the maximum rate of 1/5th will be compulsory for all E. P. T. assessees. The existing position was that $66\frac{2}{3}$ p. c. was levied as E. P. T. and $13\frac{1}{3}$ p. c. as Income Tax and Super Tax. The State was thus taking 80 p. c. of profits. The object of the Ordinance is to immobilise as much as possible of the remaining 20 p. c. Thus under the Ordinance $13\frac{1}{3}$ out of 20 p. c. will be compulsorily deposited with the Government. This amount can be withdrawn within twelve months of the termination of hostilities, or two years from the payment of deposit, whichever is later. In addition, he will be entitled to $6\frac{2}{3}$ p. c. which the Government is putting into the fund for his benefit.

The above measure eliminates some of the defects of an excessively high rate of E. P. T. The present measure, combining as it does, compulsory deposits, E. P. T., and provision for refund after the war appears to have been influenced from the experiences of other countries. One distasteful feature of the British tax had been sought to be remedied in England by the provision for the eventual refund of 20 p. c. of the tax. This, however, has not evoked much enthusiasm and it is held that the prospects of this refund are too uncertain to be included in industrial calculations. The new Ordinance in India has sought to improve upon the situation by including the Government's intention of releasing the fund at some definite date after the cessation of hostilities. But since the danger of inflation is still greater in postwar period than in war period, I think that the condition under which the blocked profits should be released is a matter which requires careful consideration, though, of course, the right to refund should be as clear and as definite as possible.

A NOTE ON THE CHANGES IN PRICES AND IMPORTS OCCASIONED BY THE IMPOSITION OF A TARIFF

This analysis is confined to cases where demand and supply conditions, both in the importing and exporting countries, can be expressed by a system of linear equations.

I

Assume the following demand and supply conditions for a commodity which is domestically produced in, as well as traded between, two countries :

	Demand	Supply
Exporting Country	$P=a_1-b_1x$	$P=\alpha_1+\beta_1x$
Importing Country	$P=a_2-b_2x$	$P=\alpha_2+\beta_2x$

In the absence of a tariff, an initial price, say P_0, will be established, such that all the above equations are satisfied. The values taken by x will, of course, differ in each case :

	Demand	Supply
Exporting Country	$P_0=a_1-b_1x_{12}$	$P_0=\alpha_1+\beta_1x_{11}$
Importing Country	$P_0=a_2-b_2x_{22}$	$P_0=\alpha_2+\beta_2x_{21}$

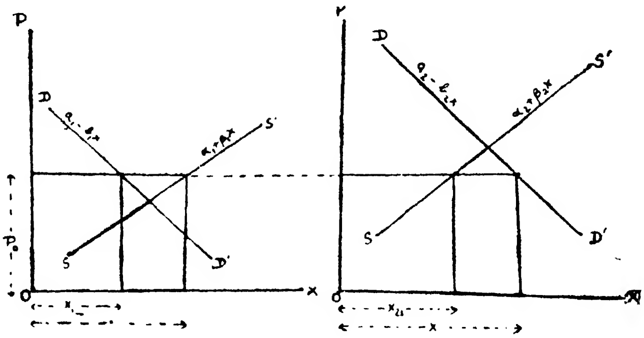
Moreover,

Supply > Demand in the Exporting Country, *i.e.* $x_{11}>x_{12}$

and Supply < Demand in the Importing Country, *i.e.* $x_{21}<x_{22}$

These conditions are clear from the following graphs:

Exporting Country *Importing Country*



It is also obvious that the volume of imports, say

$I_0=(x_{11}-x_{12})=(x_{22}-x_{21})$ ....(1)

Now $\alpha_1+\beta_1 x_{11}=P_0$ ....(2)

and $a_1-b_1x_{12}=P_0$ ....(3)

Multiplying (2) by b_1 and (3) by β_1, we obtain

$$b_1\alpha_1+b_1\beta_1x_{11}=b_1P_0 \quad \text{..........(4)}$$

and $$\beta_1a_1-b_1\beta_1x_{12}=\beta_1P_0 \quad \text{..........(5)}$$

Adding (4) and (5),

$$b_1\alpha_1+\beta_1a_1+b_1\beta_1\ (x_{11}-x_{12})=(b_1+\beta_1)\ P_0 \ .$$

Hence $$b_1\alpha_1+\beta_1a_1+b_1\beta_1\ (I_0)=(b_1+\beta_1)\ P_0 \ .$$

i.e., $$(b_1+\beta_1)\ P_0-b_1\beta_1\ (I_0)=b_1\alpha_1+\beta_1a_1 \quad \text{..........(6)}$$

Taking now the equations

$$a_2-b_2x_{22}=P_0 \quad \text{..........(7)}$$

and $$\alpha_2+\beta_2x_{21}=P_0 \quad \text{..........(8)}$$

Multiplying (7) by β_2 and (8) by b_2 we obtain

$$\beta_2a_2-\beta_2b_2x_{22}=\beta_2P_0 \quad \text{..........(9)}$$

and $$b_2\alpha_2+b_2\beta_2x_{21}=b_2P_0 \quad \text{..........(10)}$$

Changing the signs of (9) and subtracting (10) from the result thereof, it will be seen that

$$-\beta_2a_2-b_2\alpha_2+b_2\beta_2\ (x_{22}-x_{21})=-(\beta_2+b_2)\ P_0 \ .$$

Hence $(\beta_2+b_2)\, P_0+b_2\beta_2\,(I_0)=\beta_2 a_2+b_2\alpha_2$ ....(11)

Taking equations (6) and (11) together and solving,

$$P_0=\frac{\begin{vmatrix} b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & -b_2\beta_2 \\ b_2+\beta_2 & b_2\beta_2 \end{vmatrix}},$$

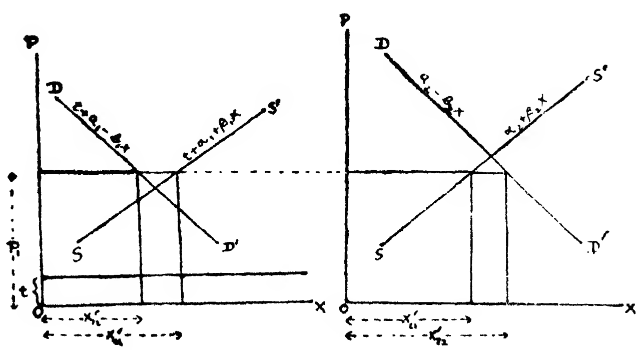
and

$$I_0=\frac{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1 a_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2 a_2 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & -b_1\beta_1 \\ b_2+\beta_2 & b_2\beta_2 \end{vmatrix}}.$$

II

Now suppose an import duty t is levied per unit of the commodity. According to the familiar mechanism of the shift of the origin for the exporting country by t, the resulting state of affairs can be depicted as follows :

Exporting Country *Importing Country*



In other words, the equations of demand and supply for the exporting country will change to $t+a_1-b_1\,x$ and $t+\alpha_1+\beta_1\,x$ respectively. The following conditions will therefore have to be satisfied, after equilibrium has been established :

	Demand	Supply
Exporting Country	$P_1 = t + a_1 - b_1 x'_{12}$	$P_1 = t + \alpha_1 + \beta_1 x'_{11}$
Importing Country	$P_1 = a_2 - b_2 x'_{22}$	$P_1 = \alpha_2 + \beta_2 x'_{21}$

Also, the newly-established volume of imports, say I_1, can be equated to $(x'_{11} - x'_{12}) = (x'_{22} - x'_{21})$.

Taking now the equations

$$t + a_1 - b_1 \; x'_{12} = P_1 \quad \text{(12)}$$

and $$t + \alpha_1 + \beta_1 x'_{11} = P_1 \quad \text{(13)}$$

and multiplying (12) by β_1 and (13) by b_1, we obtain

$$\beta_1 (t + a_1) - \beta_1 b_1 x'_{12} = \beta_1 P_1 \quad \text{(14)}$$

and $$b_1 (t + \alpha_1) + \beta_1 b_1 x'_{11} = b_1 P_1 \quad \text{(15)}$$

Adding (14) and (15),

$$b_1 (t + \alpha_1) + \beta_1 (t + a_1) + \beta_1 b_1 (x'_{11} - x'_{12}) = (b_1 + \beta_1) P_1 \; \ldots\ldots$$

It is clear therefore that,

$$\begin{aligned}(b_1 + \beta_1) P_1 - \beta_1 b_1 (x'_{11} - x'_{12} &= b_1 (t + \alpha_1) + \beta_1 (t + a_1)\\ &= b_1 \; t + b_1 \alpha_1 + \beta_1 t + \beta_1 a_1.\\ &= t(b_1 + \beta_1) + b_1 \alpha_1 + \beta_1 a_1.\end{aligned}$$

Hence $$(b_1 + \beta_1) P_1 - \beta_1 b_1 (I_1) = t(b_1 + \beta_1) + b_1 \alpha_1 + \beta_1 a_1 \quad \text{(16)}$$

As for conditions in the importing country, on the analogy of (11),

$$(\beta_2 + b_2) P_1 + b_2 \beta_2 (I_1) = \beta_2 a_2 + b_2 \alpha_2 \quad \text{(17)}$$

Taking equations (16) and (17) together and solving,

$$P_1 = \frac{\begin{vmatrix} t(b_1 + \beta_1) + b_1 \alpha_1 + \beta_1 a_1 & -b_1 \beta_1 \\ b_2 \alpha_2 + \beta_2 a_2 & b_2 \beta_2 \end{vmatrix}}{\begin{vmatrix} b_1 + \beta_1 & -b_1 \beta_1 \\ b_2 + \beta_2 & b_2 \beta_2 \end{vmatrix}} ;$$

$$\text{and } I_1 = \frac{\begin{vmatrix} b_1+\beta_1 & t(b_1+\beta_1)+b_1\alpha_1+\beta_1 a_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2 a_2 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & -b_1\beta_1 \\ b_2+\beta_2 & b_2\beta_2 \end{vmatrix}}.$$

III

The next problem is to express the increments of P and I—in the latter case negative—as simple functions of their values before the tariff is imposed.

Taking the question of price first,

$$P_1/P_0 = \frac{\begin{vmatrix} t(b_1+\beta_1)+b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}{\begin{vmatrix} b_1\alpha_1+\beta_1\alpha_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}$$

$$= \frac{\begin{vmatrix} b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix} + \begin{vmatrix} t(b_1+\beta_1) & 0 \\ 0 & b_2\beta_2 \end{vmatrix}}{\begin{vmatrix} b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}$$

$$= 1 + \frac{\begin{vmatrix} t(b_1+\beta_1) & 0 \\ 0 & b_2\beta_2 \end{vmatrix}}{\begin{vmatrix} b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}$$

Hence the increment of price, $dP = P_0 \frac{\begin{vmatrix} t(b_1+\beta_1) & 0 \\ 0 & b_2\beta_2 \end{vmatrix}}{\begin{vmatrix} b_1\alpha_1+\beta_1 a_1 & -b_1\beta_1 \\ b_2\alpha_2+\beta_2 a_2 & b_2\beta_2 \end{vmatrix}}$ ....(18)

Turning now to the volume of imports,

$$I_1/I_0=\frac{\begin{vmatrix} b_1+\beta_1 & t(b_1+\beta_1)+b_1\alpha_1+\beta_1\alpha_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2\alpha_2 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1\alpha_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2\alpha_2 \end{vmatrix}}$$

$$=\frac{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1\alpha_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2\alpha_2 \end{vmatrix}+\begin{vmatrix} 0 & t(b_1+\beta_1) \\ b_2+\beta_2 & 0 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1\alpha_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2\alpha_2 \end{vmatrix}}$$

$$=1+\frac{\begin{vmatrix} 0 & t(b_1+\beta_1) \\ b_2+\beta_2 & 0 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1 a_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2 a_2 \end{vmatrix}}$$

Hence the increment of imports,

$$dI=I_0\,\frac{\begin{vmatrix} 0 & t(b_1+\beta_1) \\ b_2+\beta_2 & 0 \end{vmatrix}}{\begin{vmatrix} b_1+\beta_1 & b_1\alpha_1+\beta_1 a_1 \\ b_2+\beta_2 & b_2\alpha_2+\beta_2 a_2 \end{vmatrix}} \quad \text{.........(19)}$$

In short, equations (18) and (19) furnish us with simple expressions for the increase of price and decrease of imports occasioned by the imposition of a tariff, in terms of the price and imports prevailing before such imposition, assuming straight-line demand and supply curves, and a flat rate of duty per unit of the commodity.

Madras. J. S. Raj.

BUSINESS FORECASTING

Forecasting is ingrained in human psychology. All that men do is done with the expectation that certain events will occur in the future. This expectation itself grows out of events which have taken place in the past. It is true more particularly of business, the decision to take up which rests largely on the entrepreneur's estimates of the degree of risk involved and the reward for taking it. A producer manufacturing in anticipation of demand, must study the probable demand for his wares; a merchant, purchasing merchandise to sell at a profit, must gauge the probable course of future prices; a stock-exchange broker must base his operations on the course which he expects prices of stocks and shares to take. Every businessman must forecast as a risk-taker, whatever his scorn for scientific business forecasters. He may not call to his aid the apparatus which the latter hold so sacred and base his policies on 'hunches', hearsay, customary belief, prejudice, superstition, astrological predictions, impressions from trade associates, or, meagre indications regarding conditions prevailing in his own or allied trades. And, if he is endowed with shrewd natural instinct, or, if experience has sharpened his intellect, he may sense the future even quite accurately. But this does not mean that scientific business forecasting can be regarded as useless or unnecessary. All are not gifted with shrewd instinct and sharpened intellect. To those who are not so gifted the study of the science of business forecasting and the application of its principles are extremely useful, while even to those who are so gifted they are certainly valuable as correctives and corroboratives.

Business forecasting is not so much the estimation of certain figures of sales, profits, production etc., as the statistical analysis of past and current economic conditions with the object of determining probable future business tendencies. The whole problem, therefore, has two aspects: First is the analysis of past business conditions to discover the course that business has followed, and second is the analysis of current economic data to determine the factors that may alter sequential changes observed by historical analysis. Both the aspects are equally important. Business activity is subject to successive waves of prosperity and depression. Historical analysis would reveal these waves. It would bring to light the extent of long-period trend, cyclical and seasonal variations and erratic fluctuations. Were the cycles of prosperity and depression to recur at regular intervals, forecasting would not only be exact and precise, but also, if it were so, child's play. But cycles vary

both in their intensity and duration, being the resultant of a complex group of causes. Forecasting, under the circumstances, is made possible only by the knowledge of the extent to which similar conditions are found to recur and of the signs indicating the time when the recurrence is likely to take place. From detailed studies of trade cycles in several countries it has been discovered that although change in business conditions is neither fortuitous nor periodic or regular, yet business in general passes through well-defined major and minor changes. Accordingly, it is possible to study the order of changes in different businesses and to measure their present related movements. These movements serve as good indicators for determining when economic conditions are basically unhealthy or sound, and when business prosperity is likely to undergo a downward swing. For example, the Harvard Committee on Economic Research in U. S. A., after an elaborate study of the data for the period 1903 to 1914, found that movements in Speculation preceded those in Business, while the latter preceded those in Money. These movements occurred with such a regularity of sequence that they afforded a logical basis for scientific business forecasting, occurrence of a particular movement in Speculation, for instance, forewarning the approach of an impending change in Business. Harvard Committee's job did not preclude the study of current economic situation. Economic conditions have a tendency to recur, but certain factors crop up to prevent exact repetition. Discoveries or inventions might take place, public tastes might change, war clouds might gather. These factors have an important bearing when business forecasting is attempted. Analysis of current economic conditions would reveal such factors. The direction in which they would mould or influence the probable course of business activity must be borne in mind.

One of the modern devices employed by the scientific business forecaster to analyse a given phenomenon and make forecasts is that of the Business Index or Business Barometer. Indeed, business index has come to be called the Economic Forecaster. A graphical presentation of index numbers of volume and value of goods produced, imported and exported, of financial statistics relating to bank clearings and money rates, of prices of stocks and shares, of wholesale prices of commodities, of wages, of electrical-power production—and, these are the indices generally employed for purposes of forecasting—gives a readier view of their secular trend and seasonal fluctuations which can be eliminated through certain statistical methods. Attention is then separately concentrated on trend, cyclical variations and seasonal oscillations to examine the underlying tendencies and related movements of the different series. The way is thus prepared for logical inference. It is, however, of interest to know that composite business index refers to general business conditions, and

although general boom or depression is reflected in a majority of separate industries and trades, yet some might show quite contrary tendencies. Therefore, estimates of general business conditions are, as they should be, supplemented by special studies of individual businesses based on separate indices relating to each important branch of business activity.

Several theories of scientific business forecasting—*e.g.*, the Time-lag and Sequence Theory, the Action and Reaction Theory—are now known and as researches take place several more, improved and refined, may come to light. The fundamental assumption in forecasting, however, as in other statistical inferences, is the belief in an orderly development of things, in a slow but steady change, in a recurrence of events. The business forecaster, therefore, selects as a basis for forecasting a past period for study resembling the present as far as possible.

The utility of business forecasting to the businessmen in particular and society in general cannot be over-emphasized. Business cycles, if extensive or long-continued, are generally disruptive in their effects upon the general economic organisation. Sudden and rapid price fluctuations render difficult the pecuniary calculations of businessmen. Consequently, risks of industry are greatly increased, business enterprize is deterred, growth of capital is discouraged, speculation is induced, and international trade and financial relations are disturbed. The entire economic machine of the world may be thrown out of gear, when the evil effects of business cycles spread. If. therefore, a slump is forestalled economic disasters, which are inevitable when trade and industry are caught unawares by depression, can be avoided, or, at least successfully faced. If forewarned, the businessmen will keep themselves ready to weather the storm when it comes. Similarly, when the businessmen expect a boom, they shall take steps in advance to prepare themselve for reaping a good harvest. Planning ahead of a boom or depression on the part of businessmen will lessen the intensity of trade cycle, reduce price fluctuations and thus contribute to the larger interests of the society. Furthermore, trade cycles can be controlled and thereby their evil consequences on various economic phenomena kept at the lowest ebb. One method how such control can be exercised is that of the regulation of credit and currency through the medium of a central bank.

The usefulness of scientific business forecasting has prompted many institutions in different countries of the world to institute economic services within their countries. Among them may be cited the Harvard Economic Society, the Brookmire Economic Service, Babson's Statistical Organisation, the Standard Statistics Corporation and the Annalist's Service in the U. S. A., and the London and

Cambridge Economic Service in Great Britain. In India, the *Capital*, a Calcutta weekly journal, has pioneered the construction of the Index of Indian Industrial Activity, with 1935 as the base year. The journal also publishes Stocks and Shares Index with prices in August 1939 equated to 100. Beyond publishing the composite and individual indices, and graphically presenting the former, the *Capital* has done nothing in the field of business forecasting. Nor could it possibly venture this delicate task on the limited experience of a small number of years for which it has published the data and because of the index being an experimental stage. The data selected for forecasting should be representative, sensitive, reliable, continuously published and up-to-date. Most Indian statistics do not enjoy these qualities, and therefore business forecaster's job in India is very difficult indeed. No economic census of the country has yet been attempted. Consequently, the question of giving weightage to different items in computing a representative business barometer is difficult to decide. The utility of the existing *Capital* Index of Indian Industrial Activity too is limited by the fact that it does not include several industries which are as important at present in India as those which it does and also by the fact that for sometime past several of its figures have been 'provisional' or 'estimated'.

The bulk of statistics relevant to business forecasting appears to be growing in India. Among others, the Monthly Survey of Business Conditions in India, published by the Economic Advisor to the Government of India, and the two non-official journals, the *Commerce* and the *Eastern Economist*, in addition to the *Capital*, are publishing current economic statistics of immense importance. But it is imperative that attention were also directed to the removal of those defects and drawbacks from which many of them suffer. For, forecasting based on faulty data is hardly of any good. On the other hand, it may be positively injurious. It is common knowledge that Indian agricultural crop forecasts, which date back to the year 1884 when the first crop forecast relating to wheat was made and which now include besides wheat, cotton, oil-seeds, rice, jute, groundnut and sugar-cane, serve little useful purpose not only because of the delay in their publication but also because of lack of their reliability, based as they are on estimates collected by an inefficient and biased agency.

If post-war economic development of India has got any meaning, neither can it be planned nor the success of the plan judged without the statistical apparatus. Economic development will proceed by a slow and continuous process, the duration of which will, in all probability, be frequented by business cycles. If, therefore, along with the maintaining of improved, adequate and accurate statistics busi-

ness forecasting is also taken up in the times to come, the economic development of the country would proceed according to plan ; otherwise, caught in the whirlpool of currency, agricultural or trade fluctuations of a serious nature, occasioned by a complex group of forces, national and international, the plan would have to struggle hard for its sailing. Of course, forecasting itself will not provide a sure road to success, yet it is one element, and an important one, in carrying the plan to its cherished goal.

University of Allahbad S. C. CHAUDHARI

SECTION 6(4) OF THE EXCESS PROFIT TAX ACT

In the Assembly Debate on the E. P. T. Bill, Sir Cowasji Jehangir remarked that the Bill was a blind and faithful copy of the English Act of 1939. He quoted the example of a Chinaman who was given an old suit to copy and who reproduced all patches and holes of the old suit in the new one. While his remark may have been true at the time, it is regrettable that the Indian E. P. T. Act has not retained its character of a faithful copy of the English E. P. T. Act. A case in point is the minimum standard profit which has been fixed in India at Rs. 36,000 for all irrespective of the status of the person carrying on the business. Whether the assessese is an individual, a firm or a Private Limited Company, the minimum standard in each case is the same Rs. 36,000. As the law now stands, the whole of the Excess Profit is mobilised by the Government. This makes the burden of tax very uneven, as an individual proprietor after paying E. P. T. and Compulsory Deposit can retain four times the profit allowed to a partner in a firm constituted of four partners. In all schemes of direct taxation, capacity to pay is an important consideration, but in devising the scheme of the present E. P. T. Act in India, no regard has been taken of this important principle. This is clearly anomalous : but in U. K. much of this anomaly was removed by Sec. 31(1) of the U. K Excess Profits Tax Act 1940. This Section reads as follows :—

The minimum amount referred to in Sub-section (1) of this Section is £1,000 or, in the case of a trade or business carried on by a single individual or by a partnership or by a company, the Directors whereof have a controlling interest therein, such greater sum not exceeding £6,000 as is arrived at by allowing £ 1,500 for each working proprietor in the trade or business provided that if in the case of a trade or business carried on by a single individual, a partnership or such a company as aforesaid, the Commissioners, having regard to the nature of the business and the size of the business as shown by the value of the assets employed therein, are satisfied that

the said greater sum is inadequate, they may, if they think fit, direct that there shall be allowed in respect of not more than four working proprietors such additional sum not exceeding £1,000 for each individual working proprietor or £4,000 in the aggregate as may be specified in the direction. Thus the minimum standard profit is made quite elastic and ensures at least £1,500 for each working proprietor subject to a maximum of £6,000. If, however, the conditions mentioned in the proviso, *viz.*, the nature and size of business are such as to justify a higher standard, the Commissioners are permitted to increase the minimum standard profit by another £4,000 to £10,000.

Thus the U. K. law does take into account the person on whom the tax is to be levied unlike the Indian E. P. T. Act which blindly hits every assessee irrespective of his status in the same fashion. This is a real hardship specially to small partnership concerns which have happened to make larger profits on account of present-day conditions. Take for instance, the case of a firm consisting of four partners. Even if they make a profit of a lac of rupees in any year, the net retention in the hands of each partner will be only Rs. 9,000 minus income-tax payable on that sum. While if the same business belonged to an individual, he would be able to retain Rs. 36,000. In the first case a person with an annual income of Rs. 25,000 only is being asked to pay 64% of his income towards the E. P. T., just as in the second case of the person with an annual income of Rupees one lac. This is obviously unfair. Capacity to pay in the second case is much greater than in the first, but our law does not take that into account Thus Section 6(4) of the Indian E. P. T. Act needs revision on the lines of Section 13(2) of the United Kingdom E. P. T. Act of 1939.

It is true that in the course of the Assembly debate, the Hon'ble Finance Member said that he agreed to increase the minimum standard from Rs. 30,000 to Rs. 36,000 because he felt that "something more than the Bill at present provides should be done for partnership." The increase from Rs. 30,000 to Rs. 36,000 for all was indeed a poor consolation in cases of firms with several partners. In U. K. the minimum rises, in ordinary cases, upto four times the original figure with the increase in the number of partners but in India the minimum was raised by Rs. 6,000 for all assessees. This was no remedy for the disease, *viz.*, the uneven burden of taxation. Even administrative convenience or simplicity can be no excuse for such patent injustice to firms and partnerships. Similarly Hindu Undivided families also deserve some concession, since as a rule several members are actually engaged whole-time in earning the profits. Let us hope the Government will do the right thing in the right way and amend the law on the lines of the U. K. E. P. T. Act.

Cawnpore LALA LAKSMIPAT SINGHANIA

HOW TO RAISE THE INDIAN STANDARD OF LIVING?

The central economic problem of India is how to eradicate poverty. It is poverty that inhibits material progress in the country and inculcates in the Indian mind inertia and also enables the administration in the country to play possum, with the elementary wants of the people. The two plans (the People's and the Industrialist's Plans) for the economic development of India have tried to hit the nail right on the head. The principal objective of the Bombay Plan is to bring about a doubling of the present per capita income within a period of fifteen years. Under the People's Plan agricultural output will increase by 400% and industrial production by 600% so that the essential and basic requirements of our people are satisfied within the next ten years. In economic parlance the key problem facing the country is how to raise the standard of living of its people.

Economic conditions of the people in India are so depressed that the term standard of living can be used only rather apologetically. The per capita consumption of food, (sugar, milk, eggs) clothing, housing is probably the lowest of all the countries that claim to be civilised. Health conditions as indicated by birth and death rates, average expectation of life are deplorable. Illiteracy is rampant.

The problem of raising the standard of living must not be viewed from a narrow point of view because lack of purchasing power is sure to hamper industrialization of the country, retard productive efficiency, stand in the way of cultural progress by keeping professional classes underemployed, and disrupt industrial harmony.

It is proposed to examine the various ways suggested for raising the standard of living. These are: 1. Increased Production, 2. More profitable exchange of goods, 3. Better distribution of wealth, 4. Proper spending of income.

Increased Production.—One cannot take more out of a pot than has been put into it. This is true as much of individuals as of nations. If the standard of living in India is low one clear inference is that the total annual national wealth available for distribution is small. With backward agriculture, undeveloped industries, and arrested economic development, the national wealth production must naturally be small. All economic plans, inter-war or post-war from whatever quarters they emerge, cannot bilk this patent fact.

More Profitable Exchange.—It has been pressed on Indian mind as a hard-boiled fact that India's foreign trade has brought her prosperity and she should therefore continue to preserve the old pattern of her foreign trade. Records of India's foreign trade were kept as a matter of political necessity for the country paid her annual

debts incurred in England on behalf of the Government of India with her favourable trade balance. India's internal trade was left in the lurch and did not receive any official attention although this trade was and still is at least ten times as important as her foreign trade. India's foreign trade is an open record of transfer of opportunities of employment to foreign countries. Converting raw materials into manufactured articles means employment at home. Exporting raw materials which should be worked up into semi-manufactured or manufactured goods at home means following a policy of self-denial. Moreover, when we import the same raw material as manufactured product from abroad we give employment to foreign labour to the exclusion of our own. The nearer production is to the stage of raw material the smaller is the return to investment and the nearer production is to the stage of finished article the greater is this return. If the various stages of production from the raw to the finished one take place in the same country the income of the country as a whole remains unaffected. But if production is so split up that one country participates in the production of raw materials and the other country works the raw materials into finished goods income differentiation in two countries is created.

The Indian economic problem is not one of getting cheaper imported goods for the individual consumer. If this be our objective the virtue of import trade, whatever its nature stands apotheosised. The national economic problem is to enable the people to enjoy as high a standard of living as the developed or the developing natural resources of the country permit. And considering the potential resources of India one need not despair of a high standard of living for people in India. A distinction needs to be drawn between a beneficial and a spurious rise in the standard of living. The former is self-reinforcing, cumulative in its effect and will mean real prosperity for the individual as well as for the country as judged by a better capacity to enrich the individual as well as the nation, the latter is elusive and while temporarily enriching the individual impoverishes the country.

In order to judge the contribution which a country's foreign trade can make to her prosperity the nature of foreign trade and the terms of trade cannot be ignored.

Better Distribution of Wealth.—Said Malthus, "From the want of a proper distribution of the actual produce, adequate motives are not furnished to continue production." Among other factors that account for the decadent condition of agriculture, the lack of a proper return to effort must be given a high place. A rack-rented

tenantry, a debt-ridden peasantry, and an impoverished husbandry do not provide any motive to improve agriculture. The cottage workers find themselves mulcted of their due profits by middlemen, while the industrial workers do not get enough to enable them to settle with their families in the industrial areas. All these conditions do not provide the requisite motive for efficient work. A distribution of wealth which would distribute the larger part of the national dividend to the poorer sections of the population must therefore be welcomed as one of the ways of raising the general standard of living. The Bombay Plan recognises that the problem of distribution is vital to any scheme for raising the standard of living. The People's Plan frankly emphasises the fact that increase in production of wealth does not by itself ensure the satisfaction of the immediate and basic needs of the people. The question of distribution of the new wealth produced assumes in this respect a great significance.

Proper Spending of Income.—The capitalist economy is based on *laissez-faire*. The spirit of individualism it inculcates does not develop an attitude of mind which makes people examine the social effects of their individual actions. According to Dr. Thomas "while our spending narrowed the scope for employment, our saving straitened it even more severely." A large part of the incomes of the well-to-do people in India has been flowing into expenditure on gold, silver, precious stones and costly garments which largely benefited that small section of Indian society which believes in piling money and sitting tight over it. Expenditure which introduces variety and richness in life percolates down into society and gives employment to labourers of all grade. Savings into idle hoards get frozen but savings properly invested fructify and widen the scope for employment. The low standard of living does not give enough work to the cultured and professional classes. In these various ways the circulation of purchasing power gets short-circuited.

A low standard of living is a national curse. But it is also a constant source of international friction. As the Report of the League of Nations on Economic Depressions points out, "the war has deepened the belief that the difference in the standards of living of different peoples is a menace to social order and international understanding, and moreover a menace that can and should be greatly reduced after the war is over."

Lahore P. C. MALHOTRA

THE NEW BUDGET OF HYDERABAD

The budget for 1354F (October 1944-45) shows very favourable effects of the war on the finances of the State. The estimated revenue for the budget year is rupees 16 crores 64 lakhs, and the total expenditure rupees 14 crores 25 lakhs, showing a big surplus of rupees 2 crores 63 lakhs and 75 thousand. This estimate is the highest in the history of the State and makes an increase of about 82 per cent over the budget estimates of the year preceding the war. The huge surplus this year has been achieved without any increase or imposition of new taxation. The two main heads which are responsible for this big increase in the revenues of the State are excise and customs thus showing a general prosperity.

When Hon'ble Mr. Ghulam Mohammed, the present Finance Member, took charge of the finances of the State, and presented his first budget two years ago, the budgetary position was far from satisfactory. He then estimated the revenue at Rs. 9 crores 34 lakhs and 13 thousand and the ordinary expenditure at Rs. 9 crores 38 lakhs and 31 thousand, leaving a deficit of Rs. 4 lakhs and 18 thousand in the ordinary expenditure. If extraordinary expenditure which was necessitated due to the exigencies of the war is also taken into consideration, the net deficit after utilising various reserves was somewhere in the neighbourhood of Rs. 81 lakhs. In his Second Budget, the Finance Member estimated the income at Rs. 13 crores 2 lakhs and 9 thousand and the expenditure at Rs. 12 crores 93 lakhs and 31 thousand, showing a moderate surplus of Rs. 8 lakhs and 78 thousand. He had to levy three new taxes, *viz.* excess profits tax, a tobacco excise tax and a tax on banaspati ghee.

MAIN SOURCES OF REVENUE

The following are the main sources of the revenue of the State. The income from each head has been shown in round figures.

		Crores	lakhs
Excise	...	4	24
Land Revenue	...	3	15
State Railways	...	2	37
Customs	...	2	10
Excess Profits Tax	...		80
Paper Currency	...		65
Forests	...		50
Excise duty on Cigarettes and Tobacco			41
Opium and Ganja	...		30

The estimates for expenditure provide for the maintenance of normal services including liberal provisions for the successful prosecution of the war.

WAR EFFORT

The State is spending this year something like Rs. 1 crore and 43 lakhs on war expenses. This figure is in addition to the ordinary military expenditure of Rs. 63½ lakhs. Besides this since the beginning of the war Hyderabad Government in direct and indirect expenditure has provided Rs. 5 crores and 72 lakhs towards war effort. Apart from this, the war donations exceed Rs. 87 lakhs and the investments in various war loans are over *Rs. 50 crores.* The value of indirect assistance by way of various concessions is estimated at about Rs. 60 lakhs.

INFLATION

In addition to very liberal war help the Government of Hyderabad in order to create stable financial conditions in the country is extending full co-operation to the Government of India in fighting inflation. During the course of 1353F, the situation remained under constant review and further steps were taken to stimulate the Grow More Food Campaign, the production and supply of consumption goods and to mop up the savings of the various sections of the population. Cash Certificates were introduced and small savings schemes have been popularised. A Development Loan was floated and a system of Treasury Bills, for the first time in the history of the State, has been put into effect, for raising short-term loans. The Capital Issue Ordinance is being strictly administered. In order to discourage profiteering an Ordinance has been enforced to restrict the growth of cash crops like groundnut, cotton and castor, which provides for a surcharge on land revenue in respect of land under cultivation of these Cash crops, at rates varying from twice to thrice the normal land revenue. As a supplementary to this surcharge the Ordinance referred to above also permits the levy of a Sales Tax on the sale of these commodities.

The sale and purchase of securities and shares has been regulated and powers have been taken to control the maximum price of securities. In issuing permits for flotation of new companies a condition has been imposed that at least 10% of the shares of the proposed companies should be bought by the Managing Directors and retained as long as they remain Managing Agents. Flotation

of new companies is permitted on the condition that the funds raised by them which are not required for actual working shall be deposited with the Government till such time as they are required for putting up factories or importing machinery and plant. Hyderabad took the lead in introducing legislation of this character.

COMPULSORY SAVING

The most important step taken during the year however has been the promulgation of an Ordinance which provides for compulsory savings from all persons whose income is above Rs. 6,000 per year at a sliding scale ranging from 4% to $12\frac{1}{2}$%. Relief from compulsory savings is granted to War contributions and other approved savings including purchase of Government of India Defence Loans, Savings Certificates, etc. etc. The amount so deposited will bear interest at 2% and will be repayable two years after the War or 5 years from the date of the promulgation of the Ordinance whichever is earlier. This measure, from an anti-inflationary point of view, has the same effect as the levy of an Income-tax.

EXPENDITURE ON NATION BUILDING DEPARTMENTS

The Nation Building departments have been very liberally provided for as the following figures indicate :

	Crores	Lakhs
Education ...	1	$45\frac{3}{4}$
Buildings and Communications		97
Medical ...		$54\frac{3}{4}$
Irrigation ...		$28\frac{3}{4}$
Dearness Allowance ...		79

In addition to these, provision has also been made for a Central Research Laboratory with a non-recurring grant of Rs. 15 lakhs and a recurring grant of Rs. 2 lakhs, a Department for Geology and Mining Engineering will be set up at the Osmania University, a College of Agriculture and also Animal Husbandry will also be established at a cost of Rs. 15 lakhs.

A grant of Rs. 10 lakhs has been provided for finding a new home and more suitable equipment for Women's College which imparts instructions in Urdu up to the M. A. standard of the Osmania University. Rs 33½ lakhs have been provided for Grow More Food Campaign.

The proceeds of the excess Profits Tax have been ear-marked for providing help to the poor sections of the community and in increasing the dearness allowance of the low paid employees of the State. A new Department of Supply has been set up to mobilize the food resources of the State and to control prices. This Department will cost Rs. 25 lakhs to the Government this year.

THE FINANCIAL POSITION OF THE STATE

The financial position of the State as revealed from the budget note is very satisfactory indeed.

The total funded debt of the Government is somewhere in the neighbourhood of Rs. $15\frac{3}{4}$ crores, the entire amount has been borrowed for productive purposes.

On the other hand, the various reserves (excepting the currency reserve) *viz.*, Debt Redemption Reserve, Famine Reserve, O. S. Stabilization Reserve, Deposits and General Reserve, Securities and Adjustment Reserve, Post-War Development Reserve, and Budget Stabilization Reserve, have a total balance of about Rs. $29\frac{1}{2}$ crores invested in first class securities.

The paper currency Reserve has a total of Rs. 37 crores to its credit invested in gilt-edged Securities.

Out of these reserves over Rs. 5 crores have been invested in Government of India Securities, thus creating a very stable source of safe and permanent income to the State.

We may conclude that the financial position of Hyderabad not only continues to be sound but has considerably improved. Hyderabad can face the future with confidence, because the growth of its war-time expenditure is of such a nature that it can easily be adjusted to the new levels of revenue when, due to fall in prices and other causes, revenue shrinks. Apart from the increased revenues and surpluses, large reserves, amounting to over Rs. 20 crores, have been built up for various objects, which should enable Government to face some of the requirements of the Post-War period and any possible economic depression with confidence and strength.

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INTERNATIONAL MONETARY FUND*

By

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I. *GENERAL PRINCIPLES*

Among the many important problems which are definitely arising in the spheres of international co-operation and national planning in the post-war period, the one that has been so far examined in some concrete detail is the problem of international monetary re-organization. It has been discussed for over a year now by the experts of the United Kingdom, the U. S. A., Canada, France and a few other countries. The reasons why this problem has been taken up first for expert examination are not far to seek. In the first place, for a period of forty years, 1875-1914, the world had the actual experience of international co-operation in the monetary field, which produced quite striking results for international trade and investment. In the second place, the working of the modified gold standard in the period 1925-31 and its subsequent breakdown brought into clear relief the conditions for the satisfactory working of that system and conclusively showed that, without an international currency system we could not have a system of world economy, and that, in the absence of a world economy, it would be impossible for us to maintain and level up the standards of living of the population of different countries by utilizing to the full the achievements of modern science. Attempts at bringing about full employment and maintaining living standards in various countries through a policy of isolation and national planning were nowhere completely successful except in the U. S. S. R. On the other hand, such attempts led to the misdirection of productive activities to a considerable extent, either resulting in a militarization of economic life as in Germany and Italy or in an increasing lapse from optimum employment of resources as in Great Britain and the U. S. A. The inadequate and unsatisfactory results of these experiments clearly showed that complete isolation of national or regional economies was incompatible with the maximum utilization of rapidly advancing Science and Technology and that large and rapid improvements of living standards of the people of different countries could only be achieved by an increasing process of harmony between the demands

*As the article was received late, it could not be printed along with other articles—Mg. Editor.

of national planning and international order. Moreover, it was rightly felt that, with its excellent record of experiment during 1875-1914, international monetary co-operation would be a subject on which agreement among the different nations was likely to be achieved. And, finally, here was a matter, which had been the subject of prolonged and threadbare discussion at the expert level for nearly the whole of the inter-war period of 1919-39, and on which certain generally acceptable and concrete ideas, capable of practical application, had already emerged. These universal and more or less definite ideas in respect of monetary reconstruction belong to what has been happily termed by Lord Keynes as "the contemporary climate of economic opinion." There is a large measure of agreement among economists, bankers and statesmen that any plan of international co-operation in the monetary field must incorporate these ideas, which have been gathered from the rich harvest of experiments and discussions that had been carried out in the two decades of uncertainty and restlessness that intervened between the two great wars.

These generally accepted ideas or principles of practical action in this particular sphere may be briefly stated as follows: In the first place, every nation must have a large degree of autonomy in the matter of controlling and regulating its own economic life with a view to smoothing out the fluctuations of industrial activity and maintaining optimum employment of resources. This would imply that an international monetary order must confine itself as far as possible to the terrain of international activity and must abstain from encroaching upon the terrain of national activity. Its duty would primarily consist in laying down the general rules of procedure in respect of co-operation in those matters which are international in their scope, *e.g.* the balancing of international accounts on current income transactions, the arranging of short-term international credit, checking the growth of abnormally large debit or credit balances. In the second place its regulative functions and operations must be conducted in such a manner that they should be conducive not merely to the general interest of all nations but also to the particular interest of every nation. This would mean that it should pay due attention to the special needs and difficulties of individual nations, *e.g.* in the matter of exchange parities. In the third place, it must not proceed on the assumption of static economic conditions or of fixed economic relationships between different nations. There should be ample scope for dynamic changes in internal policies and programmes and in international relationships. In the matter of fixing exchange parities, particularly, each nation should have the right to propose the initial rate of exchange of its currency and also to propose alterations of that rate, not of

course in an unfair or arbitrary manner, but according to certain well recognized criteria, such as abnormally large and persistent debit balances, or undue depletion of gold and foreign exchange reserves, or large-scale unemployment. And, finally, if a nation finds that the working of the international order has proved disadvantageous to it or has not permitted it sufficient freedom of action in regulating its own economic life or in carrying out important experiments, it should have the option to resign its membership with due notice. The essence of these principles of procedure would be that each member nation should have the right, first of all, to fix its attention on the internal conditions, and to control and regulate them in the interest of optimum employment of resources according to any criterion it may choose at its discretion, *e.g.* full employment or raising of the standard of living of the average citizen or reduction of inequality of wealth and incomes, or a combination of some or all of these objectives. The only limitation on such freedom of action in the national economic terrain would be that its activities should not indicate a clear potential threat to the stability of international security, *e.g.* undue enlargement of armament industries, or serve as a deliberately designed and obvious hindrance to the smooth working of the international monetary order, *e.g.* any unilateral depreciation of exchange not justified by any of the accepted criteria of disequilibrium, internal or external. It would, therefore, be necessary for every nation or at any rate a majority of the nations to surrender a minimum part of their sovereignty in economic matters so as to facilitate the smooth and efficient working of the international system. In case of any dispute between one nation and another, or between one nation and the international organization as a whole, there should be provision for a permanent machinery for consultation and discussion and settlement of the dispute according to clearly defined principles.

Above all things, it will be necessary for such an organization to be based on the principles of justice and equality and to make it clear to all concerned that it is actually based upon those principles. The failure of the international gold standard and of the League of Nations should serve as a standing warning to us that there can be no strong and durable basis for an international order except in the principle of equality of nations and absolute justice between them. Any undue weightage for political power or economic strength that may be given in the constitution or working of an international order will automatically tend to promote resentment and disloyalty among the members and tend to undermine its position from the very outset. As in the case of all corporate activities, the initiative in the difficult and delicate task of organizing and starting such an

order must, of course, be taken by a few leading nations. Economically powerful nations will also, in the nature of things, be able to exercise a good deal of influence, that is to say, informally, over the affairs of the organization. But, the constitution must be flexible; there must be room for review and redistribution of powers and for alteration in the scope of its functions and resources; and the rights and obligations of all member nations must be equal.

II. *OBJECTS AND METHODS*

Now, the main objectives for the realization of which the proposed International Monetary Fund is designed may be briefly stated to be (1) to prevent unilateral action on the part of any member nation by way of alteration of exchange parity which can only lead to competitive exchange depreciation, (2) to eliminate foreign exchange restrictions like exchange control, clearing agreements, and blocked balances, which impede the free flow of foreign trade and entangle foreign trade with unwholesome and sometimes dangerous political factors, and (3) by eliminating these powerful hindrances, to promote the expansion of foreign trade along normal channels. To ensure that these objectives will be realized, the Fund provides a permanent machinery for consultation on international monetary problems, *e.g.* when a member nation is suffering from a persistent and serious external disequilibrium and feels the necessity for changing the parity of its exchange or adopting exchange restrictions which will lead to cumulative shrinkage of foreign trade. Such a case will be a fit and proper subject for quasi-judicial investigation and decision by the Fund. Rather than allow the member nation to take the law into its own hands, the Fund will allow it to alter the rate of exchange up to 10 p.c. at its own request; it may permit a further alteration of 10 p.c. after due discussion, if it is satisfied that such a change is necessary in the interest of external equilibrium without putting too much strain on the national cost-price structure of the country concerned, and in any case its decision either way must be given within 72 hours; and it would also seem that, in fixing the initial parity of exchange of a country, the Fund will allow the country a good margin of discretion to suggest a rate that it may deem appropriate to its own situation at the time. In the second place, in a case of this kind, the member country, faced with, say, an abnormally large debit balance on international account, if it is unable to meet the gap by parting with gold or foreign exchange, its reserves being insufficient for the purpose, will have the right to buy from the Fund the requisite foreign currency, *i.e.* to say, of the creditor country, in exchange for its own currency. In this way, the Fund will attempt to prevent the rise of any occasion

for the member country in question to adopt restrictive measures in respect of foreign exchange or to block the normal channels of trade.

If it should happen that the Fund is in short supply of the foreign currency demanded, it may borrow that currency or even buy that currency in exchange for gold and then sell it to the member country requiring it. But this kind of valuable accommodation will be granted by the Fund to a member country subject to certain limitations, reasonable in themselves and also calculated to exercise a restraining influence on the member country concerned so as to induce it to take necessary measures to check the growth of its debit balance beyond a certain size. These limitations are that (*a*) it cannot buy foreign currency from the Fund within a period of twelve months beyond 25 p.c. of its quota, and (*b*) the aggregate of such purchases cannot exceed 125 p.c. of its quota. But, these limitations may be relaxed by the Fund in the case of a member country if it is found to be faced with exceptional difficulties. Moreover, should the Fund's holding of a member country's currency exceed its quota, such excess will carry interest on the basis of a sliding scale: If the excess is less tnan 25 p.c. of the quota, there will be no charge for the first three months, $\frac{1}{2}$ p.c. interest for the next nine months, and thereafter additional charge of $\frac{1}{2}$ p.c. for each subsequent year. When the excess is between 25 p.c. and 50 p.c. of the quota, it will be an additional $\frac{1}{2}$ p.c. for the first year and additional $\frac{1}{2}$ p.c. for each subsequent year, and this rate of increase will apply to each additional bracket of 25 p.c. of the excess over the quota.

Now, when a country, *e.g.* the U. S. A. in the inter-war period, piles up abnormally large surplus balances on the currency account of international trade, the deficit balance countries will need to buy its currency to a corresponding extent. If the latter, unable to buy or borrow it from the former, apply to the Fund for purchase, and if the Fund happens to be, as it is likely to be, in short supply of that particular currency, it will try to borrow that currency from the member country or some other source or buy that currency in exchange of gold. Should all these measures be insufficient to enable the Fund to acquire the requisite quantity of that currency, the Fund shall declare that currency scarce, issue a report embodying the causes of the scarcity and also containing recommendations calculated to remove that scarcity, and make an equitable apportionment of that currency among the member countries that require it. But, the method of mutual co-operation having failed in this case partly or wholly, the deficit balance countries will have the right to take measures by way of exchange restriction or trade restriction to restore the balance. The possibility of this heavy restrictive pressure

on its export trade and the fear of loss of market are likely to induce a sensible nation to observe the rules of good-neighbourliness and follow up the recommendations of the Fund to correct its own disequilibrium by (*a*) expanding its own domestic credit and domestic demand, or (*b*) increasing the money rates of earnings, or (*c*) raising the exchange parity of its currency, or (*d*) reducing tariffs and other impediments to import trade, or (*e*) granting international development loans. This is undoubtedly a decided improvement on the previous position, because it requires the creditor country to bear a part of the burden of adjustment of prices and incomes in case of external disequilibrium, and thus mitigates the pressure of disequilibrium on the debtor country to a certain extent. This measure is calculated to give the world the benefit of reciprocal action between the creditor and debtor countries, which was obtained under the orthodox gold standard of the pre-1914 days, when the majority of nations observed the rules of the gold standard game and did not adopt "sterlizing" or "off-setting" policies as they did in the period 1925-31. And, under the proposed system, we are likely to get that benefit without the disadvantages of the rigid gold standard.*

University of Dacca, Dacca

September, 20. 1944.

*To be continued

Review of Books

A CRITIQUE OF THE INDUSTRIALIST'S PLAN by A N. Agarwala, **M. A.** Published by Messrs Nand Kishore & Bros. Benares. 1944. Pp. 87. Price Rs. 2.

Mr. Agarwala presents in this small volume his various contributions on the Bombay Plan in a collected and revised form. His assessment of the Plan is an admixture of criticism and admiration. The latter, he showers generously. It is "all-sided", "full-blooded", "comprehensive" and "includes in its scope all the important parts of our economy and tries to evolve a system and relativity in their growth". The Plan has the merit of making all necessary calculations in concrete and statistical terms and it is not right " to criticise the Plan on the score of the statistical computations it contains". The ways and means position suggested therein is specially good, since such a thing has been attempted now practically for the first time. He also admires the "sound imagination" and the "business-like intellect" that have produced it, eschewing "foggy and confusing controversies". It is also right, in the author's view, that questions relating to the technique of organisation of distribution of weath and income, and the *role* of the state "are, no doubt, highly important, but they are those which cannot be discussed without raising extravagant criticism ; and it is, therefore, well that the authors have put them off for the time being, till the more fundamental issues have been cleared up." So much in admiration of the plan.

His most fundamental point of criticism is that "it makes no material provision for capital accumulation for productive use and for the liquidation of the debt it would incur". "Its only object is to put the productive mechanism on such a footing that it might begin yielding double the present *per capita* income, not caring even two hoots for future capital accumulation or foreign debt liquidation." This, he believes, looks like being too much concerned with consumption and smacks of spendthriftness." He admires the section dealing with industrialisation though he deplores the underemphasis on the other aspects of economic life, particularly agriculture. He fears that trying to put up "spectacular results on the consumption fronts" they have neglected the needs of capital accumulation. The position of cottage industries, is not made clear which is again a "great omission". As regards agriculture he does not appreciate why we should be content with feeding our own populations much less as to why it is necessary to "whittle down agricultural improvements within the narrow limits of internal requirements,". Post-war markets for agricultural products are bound to expand and it may be possible to plan for a five fold increase in agricultural production. In order to achieve equilibrium in agriculture in terms of efficiency, it should be mechanised. In the section on transport he makes numerous suggestions and the section on training the personnel is both original and useful. As regards finance he is more optimistic than the planners about the potentialities of hoarded wealth and less optimistic than they as regards reliance on sterling balances. He not only does not object to created money but believes that the created money "principle is the cheapest, most scientific and modern monetary method which has full application in normal times and should have greater relevance and validity during a period of rapidly rising indices of economic activity". In the light of all these

suggestions the scope of the plan should be further extended so as to tackle the neglected aspects of agriculture, transport, insurance, banking, etc.

Many of his suggestions are very useful ; but his fears regarding "spectacular results on the consumption fronts" and the alleged absence of arrangements for capital accumulation sound rather exaggerated. He has evidently no use for the Keynesian view that upto the point of full-employment accumulation can be better stimulated through a stimulation of the propensity to consume. So those who accept the faith that the chronic sin of a capitalist economy lies in its tendency to underconsumption his recommendation of the outmoded methods of an abstinence economy seem old-fashioned. That questions concerning the technique of organisation and the problem of distribution involve extravagant controversy and *therefore* should be put off for the time being sound strange to those who believe that the success of production plans will be conditioned by the nature of the distribution plans. He should have pursued to its logical conclusion the question as to whether mechanised agriculture can be compatible with an individualist or even a merely co-operative organisation of production. His tacit belief in the feasibility of a national government which could harmonise the conflicting economic interests and make them shoulder a common plan seems to be more optimistic than realistic.

This, however, is not to ignore the merits of the book. Many of his criticisms in the agriculture and transport sections are perfectly sound. His suggestions for the training of personnel are original and stimulating. The book is pervaded by a spirit of moderation and constructiveness that are admirable ; and there can be no doubt that within its pages it contains much that is thoughtful, interesting and entertaining.

P. S. NARAYAN PRASAD

POST-WAR CONSTRUCTION. By Dr. Anwar Iqbal Qureshi. Published by India Book House, Abid Road, Hyderabad, Deccan. Pp. 32, Price 8 as.

The author has clearly defined post-war aims and problem of Hyderabad Government which has established a new Department of Post-war Planning. How to double the absurdly low standard of living during the next five years has been very clearly described by the author. The problem of financing the plan with the help of Hyderabad State Bank organised on the lines of Australian and New Zealand Banks, has been ably discussed. The author insists on the inculcation of the habit of thrift among school children He does not like that the resources of the State should remain undeveloped because of lack of internal capital, hence he has no objection to the import of foreign capital, provided there is no foreign control associated with it. The Planning Authority is to be entrusted with the task of determining the representative technological time-preference appropriate at any particular stage of the Plan, and the optimum rate of capital intensification. The State will exercise time preference on behalf of the people and determine how much should be invested in the heavy capital goods industries and how much in the light consumers' goods industries. The importance of agriculture in post-war planning has also been stressed. The post-war Economic problems of India —Demobilisation, Labour, Public Works, Industries, Trade and Agriculture have been briefly dealt with and the Government of India's plans for Post-war Reconstruction have been appreciated.

The importance of a work of this nature at the present time has been fully realised and the author deserves to be congratulated on having admirably succeeded in presenting so much matter within this small booklet.

SARASWATI PRASAD

SOCIALISM RECONSIDERED, by M. R. Masani. Published by Padma Publications Ltd., Bombay. 1944. Pp. 55. Price Re. 1.

Mr. M. R. Masani, well-known for his selfless public work, is the author of the delightful, informative and extremely popular book 'Our India' and was until lately Mayor of the Bombay Corporation. He enjoys very well-deserved reputation for earnestness and integrity of purpose. In this small book he has put in a strong plea for the reconsideration of socialism—not of socialist faith but, if one may so put it, socialist technique.

The substance of his argument rests upon experience of socialist construction in Soviet Russia. In his opinion the experiment has not only failed but produced a system which is anti-thesis of socialism. He supports his conclusion by reference to the well-known facts like the establishment of a dictatorial regime, the occupation of the border countries like the Baltic Republic and Eastern Poland, the growing inequalities of income and investment in public loans, the introduction of restriction on divorce, abortion and discouragement of contraceptives, the imposition of school fees, etc. These facts are not disputed even by the most ardent supporters of the Soviet regime. But they see in them a process of constructive continuous readjustment in pursuit of socialism under extremely difficult circumstances and in face of the difficulties and dangers created by very powerful hostile forces within and outside Soviet Russia. For Mr. Masani, however, these facts are conclusive evidence of betrayal of socialism and its end. He does not deny that Soviet Russia has brought about enormous economic development both in industry and agriculture but that, he rightly asserts, is not the essence of Socialism. The great achievements of Soveit Russia during the war do not suggest any modification of this judgment. On the other hand they indicate the imminent danger of Soviet Russia becoming, like Great Britain and America, an 'Imperialistic' power—a new Giant which is likely to use its power like a Giant by disregarding completely the interests and needs of smaller countries.

It is not necessary to discuss the issues raised by Mr. Masani in this book. But to me it appears that he is less than fair to Soviet Russia - to the release of immense creative powers which have been brought into play and produced such creditable results in so many spheres of thought and action. No regimented people can live and fight as many nationalities of Soviet Russia have lived and fought. They have been capable of achieving all that they have achieved owing to the faith that is in them for a life that is rich and fruitful and means a lot to them and probably to the world.

That, however, does not affect the central issue of the book, *viz.* the need for re-consideration of socialism. Socialism means and should mean a lot more than this improvement of living conditions, nationalization of land and factories and central planning. It should mean freedom, development of personality and genuine freedom from not only want but also fear; and judged by this standard Soviet Russia has not only fallen short of the mark but acquired habits of thought and action which are likely to go against the realisation of the genuine socialist ideal.

Hence the need for reconsideration of Socialism. Whatever the extenuating circumstances of Soviet Russia—and they are many—her experience has certain negative aspects and it is up to the earnest socialists to use the experience for re-examining and reconsideration of the fundamental issues.

Mr. Masani with his deep convictions and insight is of opinion that this reconsideration should lead to the adoption of the Gandhian faith in non-violence, decentralization of production and 'defunctionalization' of the capitalist by which he means depriving the capitalist of the power of determining the wages of the workers, of technique of production and of prices. All this according to him is implicit in the Gandhian ideal of 'trusteeship'. It is again not possible to discuss these vital issues in this short review. I will merely content myself by saying that Mr. Masani's approach appears to me less realistic than it should be. We are living in a very imperfect world and the way out of 'terror' lies not in the abjuration of force but its public—I mean international—control. Centralization of production has to be avoided as far as possible, but in many essential industries it is unavoidable and even with decentralization a large measure of co-ordination and, therefore, central control is inevitable. As regards the 'trusteeship', the cardinal point is 'What does he (the trustee) owe his position to?' and if to money, trusteeship has no meaning in the real sense of the word and his no social utility.

I do hope that this book will be widely read as it deserves to be. What is important to realise is that socialism is neither a dogma nor a creed but an approach to the contemporary problems from a truly humanistic and therefore human point of view for the realization not only of the greatest good of the greatest number but of the highest good of all. Mr. Masani's book as a protest against rigidity and dogmatism is a valuable contribution and entitled to appreciation.

GYAN CHAND

INDIAN AGRICULTURE, by Dr. R. D. Tiwari. Published by the New Book Company, 188-90, Hornby Road, Bombay. 1943. Pp. 420. Price Rs. 16.

In these days of post-war aspirations, economic planning in our country has come to be fashionably identified with industrial planning in which agriculture is made to play the second fiddle. Despite the fact that agriculture is the most important pursuit of the people of the country and is otherwise of central importance for a variety of reasons which Dr. Tiwari clearly sets out in this excellent book, it is not unfortunately receiving adequate attention. Even among our economists, there are not many who have stated the casef or agricultural development to the fullest measure as is warranted by our natural and human resources and post-war trade propsects. In such a climate of opinion, the book under review, which draws attention to the important problems of Indian Agriculture, is a very timely and useful publication.

Not many books have yet been written on Indian Agriculture and there is considerable scope for the expansion of our economic literature in this direction. There has all along been, in particular, a great need of a thorough and exhaustive book on the subject, which might bring together the vast information lying scattered and disintegrated and present a united whole so logical, systematic and dependable as to prove suitable for the consumption of the economists, students and general readers. This task has now been successfully performed by Dr. Tiwari in this book.

The book contains eight long chapters. The first of those deals with India's Agricultural Resources and is up-to-date and statistical. The second chapter has been devoted to a study of the problem of subdivision and fragmentation of holdings and is good. Another fifty pages discuss the Tillage and Technique, to be followed by Animal Husbandry in India and Irrigation Facilities. Rural Indebtedness and Co-operative Agricultural Credit are the last topics.

All the six agricultural problems which constitute the subject-matter of the book, have been exhaustively discussed. The book is also characterised with logical treatment and clarity of thought and expression. The author has moreover drawn upon recent reports and literature bearing on the subject and the picture presented by him is refreshing. But we all the same feel that the title, "Indian Agriculture", suggests a field much wider than that covered by the present book. To give only one instance, the important problem of land tenure on which the agricultural progress of the country greatly depends, finds no place in this book. Nor is there any discussion of the place which agriculture should be assigned in an economic plan for the country, which is perhaps the most pressing problem of the day. The correct name of the book might have been, "Some Problems of Indian Agriculture."

But that evidently is not a matter of fundamental importance. We congratulate the author for writing such a helpful, thorough and up-to-date book on Indian Agriculture. For a reader who wants to obtain detailed information regarding the main problems of Indian Agriculture from a single volume, Dr. Tiwari's book is definitely the most suitable. We recommend it heartily to our readers.

A. N. AGARWALA

AGRICULTURAL HOLDINGS IN THE DISTRICT OF ALLAHABAD by Shridhar Misra, M.A. Published by the Economics Department, University of Allahabad (Economics Department Bulletin No. 21). 1944. Price Rs. 3.

The publication embodies the results of investigations carried out by the author into the problem of sub-division and fragmentation of holdings in the Manjhanpur Tahsil of the Allahabad District. The results of the investigation were submitted in the form of a thesis in lieu of one paper at the M. A. degree examination in Economics of the Allahabad University. Judged from this point of view, the book should be described as neat and workmanlike.

According to him, more than two-thirds of the cultivators have their holdings below even two acres; and the extent of the evil is increasing with time. He arrives at these conclusions on the basis of a comparison of statistical data compiled by him with the help of village records. Figures are also compiled indicating the scattered character of the holdings and the reasons for fragmentation as pointed out by the villagers are indicated. The essay ends with an outline of remedial measures. Several interesting statistics compiled by the author are given at the end. This last part of the work constitutes the author's contribution to knowledge for which he deserves congratulation.

P. S. NARAYAN PRASAD

GROW MORE FOOD IN THE UNITED PROVINCES—AN ECONOMIC ANALYSIS by B. R. Misra. Published by Dr. B. R. Misra, Benares. 1943. Pp. 31. Price Re. 1.

The War and the consequent famine in Bengal and famine conditions in most of the country have focussed the attention of the Government and the thinking public on our food problem. It is really a pity that an agricultural country of India's dimensions with nearly three-fourths of her population exclusively engaged in agriculture cannot produce enough food for her population. The popular belief that India has recently been exporting large quantities of grain to foreign countries is not borne out by facts. In the pre-war period India was a net importer of about $1\frac{1}{2}$ million tons annually. The problem therefore needs serious consideration. Without an efficient agricultural planning on an all-India basis it cannot be tackled.

Dr. Misra's pamphlet on 'Grow more food' is a timely publication. He has divided the Province into geographical zones and has made a critical survey of each zone with the help of statistics. He has discussed the problem under three sub-heads :

(*a*) whether new land can be brought under plough ;
(*b*) whether intensive cultivation can give better yields ; and
(*c*) whether substitution of food crops for non-food crops is possible.

In each case the author has cast a gloomy note. About 20 per cent. of the cultivable land of the province is still available for cultivation. But the growth in the cultivated area has not been significant during the past two decades. He therefore concludes that the optimum point of cultivation has been attained. Again he proves that the Law of Diminishing Return has set in and intensive cultivation is becoming unprofitable. His third conclusion is that the scope for the replacement of non-food crop by food crop is extremely limited in most of the districts of the province.

We agree with the author that with the existing resources of the cultivator no tangible results are possible. The new land can be brought under plough only by the State after incurring heavy capital expenditure which is beyond the means of the cultivator and even the small landlord. In the post-war period wheat may be dumped into our markets by Australia, Canada, Russia and even U. S. A. Only as late as 1939 it was selling at Rs. 2-4-0 a maund in Hapur. It may touch even lower levels if the cultivator is not protected by the State. The author has not stressed the price factor in his study.

We commend the pamphlet as a useful publication on a burning topic.

K. L. G.

THE PRESENT FOOD SITUATION IN INDIA, by Dr. Anwar Iqbal Qureshi. Published by the India Book House, Abid Road, Hyderabad, Deccan. Pp. 56. Price 12 as.

The author begins by pointing out that 'the actual food produced in the country is not very inadequate for the requirements of the people of this country'. The wheat and the rice position of the country has been described. The real causes of the present food crisis and the effects of the Government of India's control measures have been analysed. The failure of these measures and the emergence of the black market point out serious fundamental defects in the wheat control scheme. Hoarding and its causes have been examined.

Undesirable restrictions, artificial and manipulative rise in prices, and transport difficulties have been deprecated. The gravity of the food situation in Bengal and its contagious effects have been depicted. The author comes to the conclusion that rationing is not a practical proposition in the country although ultimately he welcomes the decision of the Government to control prices strongly. The food situation in Hyderabad has been declared to be more satisfactory than in other parts of India.

The author's main conclusions may be briefly summed up as to (1) sufficiency of food production in India ordinarily, specially with regard wheat, (2) a 6% shortage in rice, (3) the hesitating undecided and vacillating policy of the Indian Government being the real cause of the food crisis in India, (4) the lack of sufficient supplies of wheat with the Indian Government and of an adequate machinery to control its price, (5) Government purchases of wheat at prices higher than those fixed by the Government, (6) rise in the price of wheat with the coming of new stock on the market, and (7) the tremendous rise in the prices of foodstuffs being the real cause of the sufferings of the poor and even middle classes.

The author recommends (1) the fixation of the maximum price of necessaries of life and their substitutes by the Government, (2) the maximum price of wheat at Lyallpur and Hapur should not exceed Rs. 8 per maund, (3) maintenance of adequate stocks by the Government and its readiness to sell at the prices fixed by them, (4) Requisition of stocks from cultivators who refuse to sell their produce at fixed prices, (5) Defaulting producers and hoarders should be made liable to even capital punishment, (6) Interprovincial barriers to movements of food should be removed altogether, (7) Food should enjoy preference in the matter of transport by rail, (8) Rationing should not be adopted, (9) Commercial Corporations like the one existing in Hyderabad State shou'd be established in other parts of India to tackle the country's food problem.

The book bristles with many controversial topics and the author deserves to be congratulated on their able handling. He has examined many data afresh and pointed out glaring inaccuracies in former estimates. The book deserves a wide circulation and careful consideration at the hands of the State and the public alike.

SARASWATI PRASAD

THE INDIAN RURAL PROBLEM, by Sir Manilal B. Nanavati and J. J. Anjaria. Published by The Indian Society of Agricultural Economics, Bombay. Selling Agents: The Co-operators' Book Depot, Bombay. 1944. Pp. 422. Price Rs. 8.

This is the first publication of the Indian Society of Agricultural Economics and has been written by its erudite President and Secretary. A perusal of the work clearly shows that they have set for the other writers in the series a very high standard. It is a remarkable publication and deserves serious attention of all the students of Indian economics and agriculture.

There are three parts of the book. The first of these relates to *Facts* and discusses environment and resources, population, agriculture, food supply and social services in India. All the chapters are extremely refreshing and up-to-date. In the second part entitled *Reform Policies and Measures*, the

authors have traced the progress of official and non-official work done thus far to ameliorate the lot of the rural population. This part covers a wide field and takes about half of the book. Agricultural policy, crop improvement, land revenue problem, size of holdings, rural engineering, agricultural finance, rural reconstruction, rural self-government and the educational system—all have been discussed threadbare. The third and the last part discusses *Constructive Rural Sociology* and indicates the major lines of reform and construction. The important conclusion at which the authors arrive in this regard is that the vestiges of the old colonial policy, and of the policy of *laissez faire* must now go. So far as our rural problem is concerned, the new policy may be summed up as a bold step forward to reform the land system and to lay down a programme for removing the surplus population on the land and of doing away with rural unemployment; to evolve an efficient and honest system of administration reaching down to the villages; and to revitalize the life of the villager through the agency of the *Panchayat*, the school and the co-operative society. Such a step forward would, without doubt, enlist the wholehearted co-operation and enthusiasm of all the reformist elements in this country's population. (P. 333). The book is replete with very suitable and practical suggestions for the improvement of the rural situation.

But would all this study and suggestion-making lead us anywhere? Would the suggested remedies go home and would something be done? This is the crux of the problem. Here is the frank though pathetic reply of the authors themselves: "The tragedy is that whatever the solution suggested, we are told that it is impracticable. Either it involves too radical an alteration of the institutional framework of our rural life, or it presupposes very large funds, or, perhaps—so we are told—the problem is bound up with some other problem, which, in turn, is beyond human cure to treatment." (P. 412). So long as there is present Government and it follows the present policy, rural life cannot be revitalized and activised. The establishment of a truly national government, in their opinion, is the *sine qua non* of rural progress and development. (P. 414). India has, indeed, reached a stage where even the most moderate of the responsible and competent thinkers have been forced to draw the conclusion that, so far as a dependent country is concerned, economics must remain a slave of politics and we are happy to note that the authors of the work have ably made out this point.

The book under review is thus a complete, critical and constructive study of our rural problem, and is such that every student of Indian economics must read it as a solemn duty. The reason for it is not only this—though it is most evident—that it deals with the welfare of the three-fourths of our population; but there are other important features of the book as well. For one, it deals with the problem in an unusually refreshing manner so that it becomes a matter of as great a pleasure as of profit to go through the 400 and odd pages of close but neat printing presented between the two covers. The problem has, again, been viewed with a broad angle and the wide scope given by the authors to their labours has saved them from falling into text-book ruts which make so many books on Indian agriculture dull and dry as well as futile for all practical purposes. Then, again, this is the first book published in this country, so far as we are aware, which puts the claim of Indian agriculture *vis-a-vis* industries in a correct perspective. "If it is true to say 'Industrialise or perish,'" write the authors, "it is equally important also to remember that we have to modernise, rehabilitate, revitalise and rebuild our rural economy." This is the wholesome view which must be brought home to the people of our country before it is too late. We regard this work as a dispassionate and frank discussion of our rural problem, and its constructive part is as valuable as its descriptive and critical portions.

Highly thoughtful, extremely thorough and entirely dependable, this book must rank, after the Industrialists' *Plan*, as the most important and significant book of the year. No library, big or small, can be complete without a copy of this book. If properly studied and widely read, it is sure to revolutionise our economic thought and practical politics. We would strongly advise our readers to go through this book with the seriousness and care it deserves.

A. N. AGARWALA

AGRICULTURAL PRICES IN THE UNITED PROVINCES, by Raj Bahadur Gupta. Published by Superintendent, Printing and Stationery, United Provinces, Allahabad, 1944. Pp. 145. Price Rs 2.

This is the first Bulletin of the Bureau of Statistics and Economic Research U. P. It gives

(*i*) Annual average retail prices of Rice, Wheat, Barley, Juar, Bajra, Gram and Maize in 45 selected districts of U. P. from 1861 to 1941.

(*ii*) Annual average wholesale prices of Rice, Wheat, Barley, Maize, Gram, Arhar, Linseed, Til Sugar, Cotton and Tobacco in Cawnpore, Lucknow, Benares and Agra from 1861 to 1941.

(*iii*) Rent, Revenue, Area under Cultivation, Population, Wages and Average Rainfall in U. P. from 1900 to 1940.

(*iv*) Ten yearly moving average Index Numbers of Wholesale Prices, Rents and Land Revenue in U. P. from 1900 to 1940.

The main source of the data regarding wholesale and retail prices is the fortnightly statement published in the U. P. Gazette. Prices are reported at the headquarters of the District by honorary bazar Chowdharies to the District Officer who sends them to Government Central Press for publication in the Gazette. These reports of prices are not sufficiently reliable. In spite of actual changes in prices, the same price is sometimes reported for months together. This is due to the carelessness of the reporting agency. Sometimes, the prices of the same commodity of the same quality are not reported with the result that the figures become uncomparable. The author also has at one place admitted 'that prices from some districts were very irregularly reported' (page 2). If the figures of prices are not sufficiently trustworthy, any conclusion based on them cannot be more trustworthy. Therefore for reporting prices regularly it is very necessary to have a more reliable agency which will take keen interest in the work. The author says that the Bureau is in possession of a complete and reliable record of price variations in U. P. from 1932 onwards. But the details of precautions taken by the Bureau to get this reliable information have not been given. The only precaution that is taken by the Director of Statistics and that is mentioned in this Bulletin runs as follows :—

'In the case of retail prices, whenever the Office of the Director of Statistics, United Provinces, finds, between any two fortnights, a difference of more than 20 per cent. in the prices of an article reported from a district, an explanation is called for from the District Officer and the figures are corrected in the office copy if the difference is due to a mistake in reporting' (Page 2).

In our opinion this precaution is not sufficient. If the prices are reported regularly from each place by two or more independent honorary correspondents who may be the regular dealers in those commodities and explanations are demanded from them for any difference in the price of the same commodity reported differently by different correspondents of the same place, figures of prices would then become more reliable and the usefulness of the kind of study made by the author would be greatly increased.

We congratulate Dr. Gupta on writing the useful monograph and we commend it to all students of Economics and Statistics.

DAYA SHANKAR DUBEY

TRANSITION FROM WAR TO PEACE ECONOMY. Published by the League of Nations, New Delhi, 1943. Pp. 118. Price 4sh. 6d.

This important publication of the League of Nations is the First Part of the report of the Delegation on Economic Depression appointed by the Council of the League of Nations in the year 1938. The book contains chapters on The Effects of War Economy, The Transition from War to Peace : Domestic Issues, and The International Problems of Transition. There is besides an Introduction and three Annexes.

In the introduction to the book the objectives of post-war economic policy are indicated. Without a proper knowledge of such objectives it is not possible to tackle the problem of transition from war to peace economy in a satisfactory manner. It is interesting to point out here the objectives enumerated. They are: To assure that the fullest possible use is made of the resources of production, human and material, of the skill and enterprise of the individual, of available scientific discoveries and inventions, so as to attain and maintain in all countries a stable economy and rising standards of living. To assure that in so far as possible, no man or woman able and willing to work should be unable to obtain unemployment for periods of time longer than needed to transfer from one occupation to another or, when necessary, to acquire a new skill. To assure that in the use of these productive resources, the provision of goods and services to meet the essential physiological needs of all classes of the population in food, clothing, house room and medical care is a prime consideration. To assure that society distribute the risk to the individual resulting from interruption or reduction or earning power. To assure that the liberty of each individual to choose his own occupation is respected and is promoted by equal educational opportunities. To assure that the liberty of each country to share in the markets of the world and thus to obtain access to the raw materials and manufactured goods bought and sold on those markets is promoted by progressive removal of obstructions to trade. And lastly to assure that the benefits of modern methods of production are made available to all peoples both by the progressive removal of obstructions to trade and by courageous international measures of reconstruction and development.

In the light of these objectives the problems of the post-war world are tackled in the book. We would like readers to note particularly the objectives emphasising the liberty of individuals and countries in the post-war period to choose to do what they like and buy what they choose. It is rarely realised by people that one of the greatest joys of life consists in freedom of action. It should not be quite impossible, as the report also thinks, so to

manage things as to prevent the liberty of one interfering with that of another.

The problems of shift from war to peace economy are of diverse nature. There are some which are domestic in their character, while others are international. These are separately taken up in the book. To prevent depression that may follow a short runaway boom the report recommends that the Governments should not make an attempt to take up all at once the work of rebuilding the capital structures. It is suggested, therefore, that public demand may be kept in reserve to fill gaps in private demand as and when they occur.

The problems of international demand for capital, credit and exchange control are bound up with those of economic rehabilitation of war worn countries. A rational solution of post-war problems, whatever their character, therefore need the assistance of a sound plan of international system of money and credit. "Many of the countries", says the report, "whose needs of food and of raw materials and capital goods to reconstruct their economic life are likely to be most pressing will lack adequate means of making payments abroad. Their problem is obviously an international one, unless it is solved, the whole future of international economic relationships may be jeopardised."

Considerations of space do not permit us to review this work in a more extensive manner. Like all publications of the League this book is a very interesting reading and brings to us the result of the joint efforts of a body of cosmopolitan nature.

J. K. M.

REPORT ON THE WORK OF THE LEAGUE, 1942-43. Published by the League of Nations, Geneva. Pp. 117. Price not given.

At a time when world security has been taken up for discussion under the auspices of the United States of America, the only country which did not join the League of Nations at any time, this publication should be welcome; for, a perusal of the volume reminds the reader that the League, although paralysed in certain respects, is not yet dead, and any scheme for future world security which does not utilise the foundations laid by the League should be unwise and uneconomic. Although the big powers themselves were responsible for the failure of the League by not co-operating in giving effect to sanctions against aggressive powers, it is some consolation that at least by now, responsible men are frank enough to admit the reason for the failure. Mr. Eden recently said :

The old League of Nations did not fail because its machinery was faulty. It failed because there was not a sufficient representative force or drive behind it. There are three indispensable attributes for an international organisation if it is to have a chance to achieve its purpose. First, it must be fully representative of the Powers that mean to keep the peace ; secondly, it is for these Powers themselves to have the unity and determination to arrive at great positive decisions ; thirdly, they should have force behind them to give effect to their decisions.

The same thing was reverberated by Mr. Cordell Hull when he said :

Some international agency must be created which can—by force if necessary—keep the peace among nations.

Unless the world realises, the Big Powers realise particularly well, that keeping the peace presupposes absolute disarmament, that relative disarmament means relative armament, no real progress should be possible in world security.

Membership has gone down from 55 to 45, and many have not made their financial contributions for the maintenance of the League. The humanitarian objective and the irregularity of support make the League resemble a Home for the Aged.

There are three international organisations of the League, but only two are functioning at present, the I. L. O. and the Economic, Financial and Transit Section.

The huge buildings at Geneva are yawning for more activity. The League has become literally international—publications from Princeton and Columbia, the Report under review printed in England and issued as from Geneva. The library at Geneva has 318,200 volumes, but the establishment of officers has gone down from 700 to 100.

There are three appendices, the Covenant of the League of Nations, Wilson's fourteen points, and the eight clauses of the Atlantic Charter. The volume is brimful of the spirit of Woodrow Wilson and is a timely and powerful appeal for a resuscitation of the League. The Secretary General mournfully observes :

> There is an anxious interest, a growing hunger for the satisfaction of the peoples' hope and demand that not again shall they have to tread the bloody road of war and destruction, loss and grief ; that their battles shall be the battles of peace for progress and their sacrifices made not only to preserve or regain their ancient freedoms, but to open wider the rising road for humanity. This deep sentiment is naturally more vocal and active in United Nation countries but it is also the subject of thought and discussion in the few neutral States and is moving people in all the unfree lands

S. KESAVA IYENGAR

RAILWAYS IN MODERN INDIA, by Ramswarup D. Tiwari. Published by the New Book Company, Hornby Road, Bombay. 1941. Pp. 284. Price Rs. 10.

Transport probably is the most important single factor for the economic development of a country. A country like India with long distances cannot have any trade--internal or external--without good means of transport. Railway construction in India began about 1850. It was accelerated after the Mutiny and again as a recommendation of the Famine Commission of 1880. Yet after about the lapse of a century we have a little over 40,000 railway mileage. It is nothing as compared to the mileage of countries like U. S. A. Unless our transport system is properly developed and administered no plan can succeed.

Dr. Tiwari has made a special study of transport problems. The book under review discusses the evolution of Indian Railway system and Finance critically. The post-war developments in railway finance after the separation of the Railway Budget from the General Budget in 1924 have received special attention. Beginning with the recommendations of Acworth committee of 1921 the author has narrated the various changes and has critically examined

the opinions of various committees like Pope Committee and Wedgwood Committee. After discussing the various problems connected with Railway Finance he concludes that there is no rational basis for the continuance of contribution to general finance. The surplus should be used for improving the efficiency of services and reduction of rates and fares

The author has examined the Railway Rates Policy in India and in this connection he has made a number of suggestions for the improvement in the personnel and working of the Railway Rates Advisory Committee. In the last chapter he has stressed the need for co-ordination of transport agencies by assigning to each form of transport its economic place in the transportation systems to promote optimum development of transport agencies.

Dr. Tewari has written with lucidity and shown clarity of thought and mastery of the subject. It is a valuable contribution to the knowledge on the subject. The book is neatly printed and got up.

K. L. G.

COMMUNICATIONS AND TRANSPORT IN POST-WAR INDIA, by Prof. R G. Sarien, M.A, B. Com. Published by the Hindustani Kitab Ghar, Ajmer. 1943. Pp. 24. Price As. 5

Professor Sarien, the author of two other booklets on "Educational Planning" and "Post-War Reconstruction in India", presents in this third publication of the "Reconstructing India" series, a resume of the problems of transport development after the War The book, like others in the series, is meant for "the common reader, as well as the student of economic and social problems," It gives an outline of the requirements of transport development under the head of roads, railways, water transport (inland and marine), airways and posts, telegraphs and wireless. While the book will serve as an introduction to the problems of transport to a lay reader, it is also replete with suggestions of a constructive character and may be found useful in popularising economic ideas among the general public. A number of useful statistics are also appended.

P. S. NARAYAN PRASAD

FUTURE OF HANDLOOM WEAVING INDUSTRY IN INDIA, by M. P. Gandhi. Published by Gandhi and Co., Bombay. 1944. Pp. 27. Price Re. 1.

Handloom weaving has been the most important handicraft of India for centuries, and even to-day it occupies the same position, supplying about 25 to 30 per cent of the cloth requirement of the country. It gives employment to about 25 lakh workers as against 5 lakhs engaged in the cotton mill industry which supplies about 68 per cent of cloth. But during the present century while the mill production has increased from 389 million yards in 1901-02 to about 4.500 million yards in 1943-44, the handloom production has only increased from 827 million yards in 1901-02 to about 1,500 million yards in

1940-41. During the last two years the production of handloom has declined owing to paucity of yarn and political disturbances in the country that affected the production of *khaddar*. The Swadeshi movement and Mahatma Gandhi's leadership have given stimulus to the handloom. But its future is very uncertain unless the industry is rationalised and there is a proper co-ordination between the handloom and the mill industry because so far the Indian mills have captured the home market from the foreigners, but now that they have a practical monopoly in most lines, they will try to oust the handloom weaver, root and branch, unless the State comes to his assistance. For the Indian economy his services are of vital importance.

Mr. M. P. Gandhi has made a special study of the Indian Textile industry. The present pamphlet is based on the report of the Fact-Finding Committee (Handloom and Mills), 1943. The author has given useful statistics about the production of yarn and cloth, the number of workers employed, qualities of yarn used by the weaver, etc. He has also made a number of useful suggestions for the future organization of the handloom industry on sound lines.

The pamphlet is of considerable value to the students of the subject, particularly because the Report of the Fact Finding Committee is not available to public now.

K. L. G.

MR. ELIOT'S PENNY WORLD OF DREAMS by Ahmed Ali. Published by the New Book Co., Hornby Road, Bombay, and P. S. King & Staples, Ltd., London. 1944. Pp. 138. Price Rs. 5 8as.

Mr. Ahmad Ali's study of T. S. Eliot's poetry is a welcome and useful addition to the scanty critical literature dealing with modern English writers. T. S. Eliot has been one of the intriguing personalities in modernistic art. This "essay in interpretation" throws considerable light both on the world of Eliot's dreams and the enigma of his artistic technique.

The world in which Eliot lives and moves is falling in ruins about his ears. It is a world weary and sick. "The poetry of the twentieth century is the poetry of a class in the throes of death. It is marked by two broad tendencies so varied in nature yet so alike: listlessness in hysteria. Both were the outcome of a desire to escape from ennui and from the fret and fever, the painful reality of life . . ." says the author.

Eliot describes with superb artistic skill the ache, the groping, the fatigue and despair of his class. The solution he advances is a return to pristine Christianity. This to many would appear to be a forlorn hope.

Ahmad Ali analysis how Eliot inspite of his deep and intense dissatisfaction with the world of to-day is unable to go to the root of the matter, that is, ending the monopoly of the means of production possessed by a small class. This class builds up empires in its mad quest for markets and raw materials, plunges humanity into the vortex of terrible wars, destroys food and other necessities of life in its greed for profits, concentrates on the production of luxuries, misuses art and science, directing the whole plastic energy of the mind towards nihilistic ends. Of all this Eliot is vaguely conscious. His work has the tone of an elegy sung to the accompaniment of a dying society. But in the final

analysis the poet turns his back on reality seeking refuge in phantasy and dreams.

This study throws much valuable light on the technique employed by Eliot, the despair of so many readers of poetry. Mr Ahmad Ali has read Eliot's work for years and loves it. Under his affectionate care many obscure points emerge with a new richness and light. He deserves all praise for his painstaking and illuminating work.

P. C. GUPTA

WAR AND PEACE IN THE PACIFIC. Published by International Secretariat, Institute of Pacific Relations, New York, 1943. Pp. 164. Price $ 1. 25.

This is a preliminary report of the discussions held at the Eighth Conference of the Institute of Pacific Relations which met at Mont Tremblant, Quebec, in December, 1942. The Institute is an unofficial organisation for the study of the problems of the Pacific region, and members from the important countries interested in this area took part in the deliberations India was represented at the conference for the first time ; the U. S. S. R., "for understandable reasons", did not send a delegation. This was the first conference at which government officials of high rank participated, though in their personal capacities, in the discussions. The conference considered measures for the better prosecution of the war and the "establishment of conditions of racial, political and economic justice and welfare" in this sector of the globe.

It was suggested at the conference that the absence of a clear-cut declaration of the United Nations' policy concerning Japan and the Japanese-occupied territories hampered the Allied propaganda campaign against Japan. A closer association of China and the smaller Powers in the higher determination of Allied policy and strategy, and the removal of doubts regarding the universal application of the Atlantic Charter would, it was felt, help the war effort.

There was general support for a proposal for the establishment of a Pacific Zone Council composed of representatives of the Powers interested in that region. This Council, with naval and air units at its command, would act as the local agent, exercising police and civil powers of a world peace organisation when such a body is established. It would also advise the governments concerned on the co-ordination of economic policies and the improvement of standards of living, and supervise the evolution of self-government in the dependencies. The "round table" on South-East Asia favoured the representation of native peoples on the Pacific International Authority but India did not figure in the list of members of the Pacific Regional Council suggested, for, only independent communities were to have a place on the Council.

The absence of a Congress spokesman from the Indian delegation materially derogated from its representative character. Despite the efforts of some American and Canadian members who advocated mediation or arbitration by the United Nations in the Indian deadlock the conference failed to formulate an effective plan for an early solution of the Indian problem which remained a standing challenge to the Allied war aims.

The conference desired a speedy progress of the subject communities of the Pacific region towards complete self-government. Though transfer of sovereign powers of government over these areas to an international authority was not favoured, some international supervision was deemed desirable in

order to ensure the moral responsibility of the colonial Powers to the rest of the world for their trusteeship.

Regarding the Chinese and Indian demand for the abrogation of discriminatory immigration laws, Canadian, New Zealand and Australian members felt that "any substantial influx of Asiatic peoples into these areas would rapidly reduce standards of living".

"In general, there seemed to be an agreement that an obligation existed for a removal of the sting of discrimination from existing immigration policies, but the specific methods whereby this might be achieved were not further explored."

It was realised that in the absence of adequate provision for collective security nations would tend to prefer self-sufficiency to economically more beneficial policies. There was a general desire for the improvement of standards of living in the Pacific area and for relief and rehabilitation in war-devastated territory, not only for the best humanitarian reasons but also for the avoidance of economic depressions in the U. S. A., newly-industrialised Australia, and other economically developed countries. The Indian and Chinese members, while subscribing to the general desirability of expanding trade and an inter-dependent world economy, were not prepared to support the restoration of "the system of international specialisation built up by European initiative in the nineteenth century." It was agreed that post-war economic institutions must provide for change and growth and that foreign capital should not impede the progress of industries set up with native capital and organisation.

The post-war treatment of Japan, the fate of the Japanese Empire, measures for the material and cultural development of subject peoples, the necessity of convening a United Nations Conference to discuss wartime problems and post-war plans of the United Nations in the light of the common ideals inspiring them were among the other topics considered.

The Institute by publishing pamphlets and arranging periodic conferences is making a valuable contribution to the study of Pacific problems. Let us hope that leaders responsible for immediate decisions about the future of mankind will take the cognizance of suggestions emanating from such non-official bodies. The proposals for a Pacific Zone Council and a United Nations Conference, the necessity of a sincere and unqualified attempt to implement the principles of the Atlantic Charter and the "Four Freedoms" deserve particular attention. The proposals of the conference concerning the internationalisation of Power, however, seem rather feeble. The question of land forces was scarcely considered in this connection, internationalisation of navies was thought "not very practical" by an expert, and national armed forces to be retained, while making allowances for international needs. Few members could get away from the hypothesis of national sovereignty. One wishes that the conference had devoted more attention than it did to the educational, psychological and institutional factors involved in the creation of a united world will, impervious to the appeals of sectional vested interests, without which no political order can endure.

"War and Peace in the Pacific" should provide food for thought to every student of international affairs.

J. N. KHOSLA

IMPACT OF RISING PRICES ON VARIOUS SOCIAL STRATA IN THE PUNJAB, by Paul Green. Published by Board of Economic Enquiry, Punjab, Lahore. 1944. Pp. 17. Price 8 as.

This little brochure, a prize-winning entry in a competition open to Professors of Economics in the Punjab, is an attempt to enrich the meagre existing literature on original statistical studies of Indian socio-economic phenomenon, and is, as such, welcome. It throws interesting light on the effects of high prices on various social strata in the Punjab around March 1943 by asking and answering three questions regarding each stratum : 1. How have their incomes changed? 2. How have the prices of the items of expenditure in their budgets changed? 3. How have their standards of living and their asset-liability positions changed in response to a disparity between 1 and 2 ? These questions are asked concerning three groups—fixed wage and salary receivers, soldiers (officers-in-training), and agriculturalists. After a series of quantitative analyses the author arrives at a striking conclusion that "the fixed-income classes are suffering some reduction of standard of living and are consuming savings or going into debt ; the soldiers have experienced a slightly higher standard of living with respect to food and clothing and are making savings ; the agriculturalists are probably living nearly as well as pre-war and are liquidating indebtedness," and claims that "the impact of rising prices on various social strata in the Punjab has been to transfer wealth from the fixed income groups to soldiers, and agriculturats." (p. 14) Believing that the tendencies shown for a group of officer-cadets studied represent the tendencies for all military personnel, he further concludes that in view of the Punjab supplying a considerable proportion of India's armed forces, "this means not only a transfer of wealth from fixed-income groups to military groups, but a transfer of wealth from the rest of India to the Punjab" (p. 16). This last conclusion appears to have been arrived at too lightly, while the claim that the results of the inquiry can be generalized to the population of the Punjab beyond the groups actually studied is not fully borne out in the text of the brochure. It is silent on the area of the province covered by the inquiry, as also on the method adopted in selecting the samples studied. The sample relating to agriculturalists is "admittedly inadequate". (p. 10).

Yet, the brochure points to the necessity of quantitative thinking in socio-economic problems and indicates the lines which, when improved and followed, would satisfy the 'general cry for facts regarding the prevailing conditions.'

S. C. CHAUDHRI

URBAN WORKING CLASS COST OF LIVING INDEX NUMBERS (1942) IN THE PUNJAB by M. H. Mahmood. Published by Board of Economic Inquiry, Punjab, Lahore. 1944. Pp. 17. Price 8 as.

This small publication is the seventh year's issue dealing with the cost of living of working classes at Sialkot, Ludhiana, Rohtak, Lahore and Multan during the year 1942 with the prices in five years, 1931-35 equal to 100. The method of constructing the index is that of double-weighting—weighting each price-relative to compute the "group index," and then weighting each "group index" to arrive at the "General index." The publication is

very illustrative of the details of working the index and to it are appended nine statements and six graphs which make it an informative and interesting study.

The usefulness of these index numbers, however, is limited by the facts that the weights were derived from only 138 family budgets collected in connection with the investigations of Royal Commission on Indian Labour, that the scope of the inquiry was confined to the workers getting Rs. 50 per month or less, that the prices are collected only on the last date of each month, and that the 'miscellaneous group' is not fairly comprehensive.

S C CHAUDHRI

MUJALLA-I-TILSIYANIN—Economic Journal of Osmania University. October 1943 issue. Edited by Mohd. Ghous. Manager Mohd. Abdul Ali. Published by Imtizami Press, Hyderabad—Deccan. Pp. 90+86. Price Rs. 5 per annum. Single copy Re. 1. 8as.

"Mujalla-i-Tilsiyanin"—The quarterly journal of the Society of Graduates of the Osmania University, Hyderabad (Dn.) is a welcome addition to publications in the Urdu language. It is published in the months of January, April, July and October and consists of two Sections—one general and the other economic. It does not publish articles on current politics or religious controversies.

The journal under review contains articles of literary, philosophic and historical interest in the general Section and the articles in the economic section include A. B. C. of Economics, Currency inflation in India and Economic problems of Hyderabad. The standard of the articles is fairly high and the journal will prove useful for all those interested in the above-mentioned topics.

S. M. SHAFI

SIYASAT—March 1944 issue.—A Quarterly Journal in Urdu dealing with Social Sciences. Published by the Osmania University, Hyderabad. Pp. 114. Price Rs. 2. 8 as.

It contains an interesting and valuable article on Islamic Economics from the pen of Maulana Manazir Ahsan Sahib Gilani—the Head of the Department of Theology. The writer has ably discussed Islamic teachings regarding 'interest', charity, price control, hoarding, profiteering, principles of trading, uses and conservation of capital, inheritance, birth control, labour and wagesi, profit-sharing, etc demonstrated the loftiness of economic principles embodied in the Islamic literature. The second article on Baghdad and Islamic civilization is also very illuminating. Mr. Imtiaz Husain Khan, B.Com. (Hons. London) has contributed to this issue a learned discourse on the economics of Peace and War, with special reference to India and has deemed it necessary to sound a note of warning to the Indian Government to adopt such measures quickly as are calculated to save other provinces from the fate of Bengal. 'Beveridge Scheme and India' is another interesting article in

which Mr. Mohd. Abdul Qadir raises the problem of old-age, sickness and unemployment Insurance in India.

The Journal has succeeded remarkably in popularising modern economic and social thought among Urdu-knowing public and deserves encouragement from every quarter.

SARASWATI PRASAD

THE TEN PENCE RUPEE (Exchange—A Problem For Post-War Reconstruction), by Prakash C. Banerjee. Published by the Students' Friends, University Road, Allahabad. January, 1944. Price 3 annas.

The problem of India's sterling balance has become a vexed question of the day and the country is afraid to lose a great part of this huge asset in future through various devices. Although there has been much agitation in this country over many of these devices, the problem of over-valuation of the rupee, as constituting another important device, has not drawn so much attention from the people. In this brochure, the author visualises the revival of the old Ratio Controversy in a new form and discusses the present rupee-sterling ratio with all its injurious effects on our so painfully earned sterling balance. According to the author the rupee at 1s. 6d. rate is now an over-valued currency and he calculates that the external value of the rupee has gone down to the low level of 10d. during these War years. This is now the natural rate of exchange for the rupee. The author has done orginal and valuable work and his timely study deserves attention.

SUDHIR MUKERJI

Books Received

A CRITIQUE OF THE INDUSTRIALIST'S PLAN. By A. N. Agarwala. Published by Messrs. Nand Kishore & Bros, Chowk, Benares. 1944. Pp. 87. Price Rs. 2.

[Reviewed in this issue]

AGRICULTURE IN INDIA—Past, Present and Future. By Nabagopal Das, Published by Mr. D. M. Roy, 11/A, Badur Bagan Row, Calcutta. 1944. Pp. 56. Price Re. 1.

[To be reviewed]

THE CEYLON ECONOMIC JOURNAL. Edited by Dr. B. B. Das Gupta. December 1943. Published by the Ceylon Economic Society, University of Ceylon. Annual subscription Rs. 10.

[An excellent journal of economics dealing especially with economic problems relating to Ceylon. It contains an informative, and erudite article on the social consequences of war finance by the Vice-Chancellor, Mr. W. Ivoy Jennings. The Editor himself contributes an ably written article on the problem of small coins. According to him the small coin shortage in Ceylon was the result not only of increased demand but also of their being melted down which had become a paying proposition. Mr. T. Somasundaram writes on the financial system of the Ceylon Government which contains a lot of interesting and useful information It is an ably edited journal and contains dependable information and highly useful reading matter.]

ECONOMIC AND FINANCIAL COMMITTEES' REPORT to the Council on the Work of the 1943 Joint Session. Published by the League of Nations, Geneva. 1943. Pp. 81. Price $ 0. 50.

[The Economic and Financial Committees of the League of Nations, which were created in 1920 to assist in reconstruction have again been active during this war and their joint deliberations have already been published in nine volumes bearing on trade and commercial policy, relief and reconstruction and economic security, which can now be seen on the shelves of every uptodate library. This Report of the Joint Session of these Committees held in December 1943 first describes the work already completed and the work that is now in hand. The problem of industrialising the undeveloped countries is receiving their attention while demographic problems relating to Europe and U. S. S. R. are being finalised The study of inter-war currency experience, including problems of exchange stabilisation and capital movements, and of the closely allied problem of foreign investment, is receiving close attention. The appendices give summaries of the nine reports thus far published. The Committees state that "their conclusions deserve the attention of those responsible for formulating, and carrying through policies for dealing with the vast problems which will have to be faced after the present war."]

POPULATION AND FOOD SUPPLY. By Dr. Radhakamal Mukerji. All-India Nutrition Board's Pamphlet No. 1. Published by Messrs. S. Chand & Co., Delhi. 1944. Pp. 31. Price 8 as.

[Dr. Radhakamal Mukerji's pamphlet under review is welcome as being a summary version of his well-considered views. It has also made a timely appearance. Dr. Mukerji first establishes India's deficiency in food supply and then makes a number of valuable suggestions for not merely increasing our agricultural production but for increasing it in such a way as to secure adequate nutrition to our people. We, in particular, wish to refer to his suggestion for a co-ordinated development of forestry, erosion and flood control. He strikes the nail on the right head when he demands a Federal Development Authority to carry out his suggestions. Without a proper co-ordinated and nation-wide measure, nothing indeed can be done in the domain of planning ; and this applies to agriculture also. We recommend this book to our readers' attention.]

REPORT ON THE ECONOMIC SURVEY OF SIX VILLAGES IN MATARA DISTRICT. Published by Superintendent, Government Press, Colombo. 1944. Pp. 31. Price 65 cents.

[**To be reviewed**]

REPORT OF THE JAIPUR STATE POST-WAR RECONSTRUCTION COMMITTEE. Published by Secretary to the Government of Jaipur, Development Department, Jaipur State, Jaipur. 1943. Pp. 74 plus 31. Price not given.

[**To be reviewed**]

WAR AND INDIAN ECONOMIC POLICY. By D. R. Gadgil and N. V. Sovani. Published by the Gokhale Institute of Politics and Economics, Poona. Second Edition Enlarged by Part III. 1944. Pp. 160. Price Rs. 7 8as. or 15s.

[This is the second edition of the already well-reputed book on India's wartime economy by Prof. Gadgil and Mr. Sovani, the first edition of which was reviewed in the July 1943 issue of our *Journal*. Full one year intervenes between the two editions (April 1943 to April 1944), a period which has witness- ed many important events and changes. This has required the addition of fresh matter which now forms part III of this book under the caption "Retrospect and Prospect". The third part deals with monetary policy, sales of gold and consumer goods, control of prices, price level of food grains, price of cloth, control of wages and profits and the level of prices and deflation. It has been written after mature consideration and the views expressed by the authors are out of the common rut and most thought-provok- ing. It is a work of thorough study, careful analysis and exhaustive treatment. We heartily endorse Dr. A. I. Qureshi's judgment that it is "a very valuable contribution" to the existing literature.]

THE U. S. ECONOMY AND THE WAR. By Messrs. Harkisondass Lukmidass, Bombay. Published by the same. 1944. Pp. 8. For private circulation.

CONTENTS

CONFERENCE PAPERS

Transition from War to Peace Economy.

India and International Economic Co-operation.

Social Security with Special Reference to India.

Indian Journal of Economics

(Established in 1916)

Objects

The *Indian Journal of Economics* was founded by Professor H. Stanley Jevons in 1916 with the three-fold object of providing a medium for the publication of articles on Indian Economics by authors of academic standing or authoritative position ; furnishing a convenient vehicle of publication for original investigations ; and disseminating information about the economic activities of other countries. Its scope has been generally extended since then so as to cover every branch of economic science.

Contributions

The Managing Editor will be glad to receive articles with a view to publication in the Journal. Articles published elsewhere will not be accepted. All manuscripts submitted should preferably be type-written and a copy should be kept as the Managing Editor, although he will make every endeavour to return rejected manuscripts, cannot undertake responsibility therefor. The whole of the contents of this Journal is copyright, and permission must be obtained in writing for the quotation or paraphrasing of more than 500 words from any one article. Every quotation must contain an acknowledgement of its source.

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The Journal appears quarterly in July, October, January and April. The subscription year commences from July and ends with April issue. Subscribers are requested to bear this in mind so that they might be able to subscribe the Journal volumeswise. ***The subscription, inland as well as foreign, is strictly payable in advance.*** The annual subscription is Rs. 12 net but the subscribers who wish to have the Journal sent to them per registered post should send Re. 1 more, ***i.e.***, Rs. 13 per volume. Ordinarily the issues are despatched through ordinary post under Certificate of Posting, and no responsibility is taken regarding safe transmission and delivery. No duplicate copies are supplied gratis.

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The Indian Economic Association was founded in 1918 with the object of general advancement of economic knowledge. The membership of the Association is open to teachers and students of Economics and to such other persons as are interested in Economics in general or in special economic problems, if duly elected.

There is at present no entrance fee. The annual subscription payable by members is Rs. 12. This entitles members to attend all meetings and the Annual Conference of the Association and also to receive all issues of the Indian Journal of Economics for the year (1st June to 31st May).

INDIAN JOURNAL OF ECONOMICS

The Indian Journal of Economics—the organ of the Indian Economic Association—appears quarterly in January, April, July and October. The April issue is the Special Conference Number and contains all the papers read at and proceedings of the Annual Conference of the Association. Members of the Association receive the Journal free.

Applications for membership and further particulars may be obtained from the Hony. Secretary & Treasurer : Dr. V. K. R. V. Rao, University of Delhi, Delhi.

Publications of University Teachers and Research Scholars, Economics Department, University of the Punjab, Lahore

By Dr. L. C. Jain, (University Professor of Economics):

1. Indian Economy during the War, Lahore, 1944.
   "This highly provocative volume on topical subject provides stimulating reading and deserves careful perusal by every nationalist and Indian economist. Dr. Jain is not anything if not critical. His arrangement of data is commendable and his criticism illuminating."
   —*The Amrita Bazar Patrika, Calcutta.*
2. Indigenous Banking in India, Macmillan & Co., London, 1929.
   "*It fills a distinct gap in Monetary Literature*"—
   Lord Keynes.
3. The Monetary Problems of India, Macmillan & Co., London, 1933.
   "........... *The best book on Indian Monetary Problems ever written by an Indian*."—The Economic Journal, London.
4. Reserve Bank for India, Lahore, 1933.
5. Report on the Effect on Ceylon of Textile Quotas and Preference Duties, Ceylon Government, Colombo, 1940.
6. Working of Protective Tariffs in India, Delhi University, 1941.

By Mr. D. K. Malhotra, (University Lecturer in Economics):

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THE THREE PHASES OF THE TRANSITION FROM WAR TO PEACE ECONOMY**

BY

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Some writers in this country have speculated that the termination of hostilities would be attended by a widespread economic depression. The logic underlying this expectation would seem to be broadly this. The restoration of peace would lead to a general demobilisation of the men in the fighting services and in the munitions industry. These would seek to return to their peace-time occupations. In the principal belligerent countries, where conscription prevailed during the war, the aggregate of men and women who would thus be released on the employment market may represent the greater part of, if not the entire, able-bodied part of the population. In Great Britain, for instance, the figure may be well over 10 million. It may not be possible, or so goes the argument, to absorb all these numbers in peace-time work. The same would be the fate of the factories which to-day have to work overtime in order to be able to keep the commitments of their contracts with the governments. War orders having ceased they would be compelled to close down. Idle hands and idle factories would

** For a more detailed version of the argument of this essay please refer to my book on *The Post-War Depression and the Way Out.*

go to deflate the volume of the purchasing power in the pockets of the people and the economy would slip down into the grips of a depression.

In the view of these writers this would present the principal problem of the transition from war to peace economy and, consistently with their analysis, they would attempt to tackle it somewhat on these lines. With a view to preventing the emergence of unemployment, they suggest that the warring States should continue to maintain for sometime after the restoration of peace the fighting services as well as the armament factories in their full strength. Demobilisation and the withdrawal of the war-time governmental demand for goods must be gradual and must be spread over a length of time which may be necessary to render the process harmless in its effects on the economy.

This would seem to be a very strange conclusion indeed. For if we were to accept it as valid, one might as well argue that public good would be served if the war were to continue for some time longer than it actually may—at least a mock version of it if only to prevent the unemployment which might otherwise emerge. But to keep the war machine going would cost enormous sums of money or, speaking in terms of physical resources, phenomenal quantities of man-power, instruments of capital and materials of all kinds. And, as during the war, the necessary finance would have to be found by first forcing down the consumption of the people so as to widen the gap between the income and expenditure of the community and then by appropriating this gap through taxation and loans. In this manner the civilian sector of the community would be compelled to save and to stint in order that vast armies of able-bodied men and women in the fighting and the auxiliary services might be maintained in idleness and the munitions and other establishments might be kept working at their war-time level of activity. This would be a colossal waste of the community's income and savings and it is not at all clear how that could serve any public good.

The fact, however, is that the reasoning, from which this absurd conclusion resulted, is a fallacious one. It puts too simple an interpretation upon the armistice and the post-armistice economics and is also quite contrary to the experience which followed the cessation of the war in 1918. In Great Britain, for instance, the armistice released on the labour market from the forces and the munitions industry an aggregate of about 4½ million men and women. The very magnitude of the numbers for whom work had to be found was, no doubt, bound to produce

an unemployment crisis. But it was soon discovered that the crisis was not a serious one in the sense that it was not going to be prolonged. It was no more than an enlarged edition of the usual, temporary, frictional unemployment which attends the migration of workers as between trades and jobs. Contrary to the expectations of the logic we have outlined above, it produced nothing of the depression conditions. The problem of re-transfer into civilian occupations very largely solved itself. Though the numbers released from the fighting services and the war trades were very large, those who availed of the out-of-work donation provided for them from private funds, exceeded the million mark only in two months, namely, March and April 1919. The demobilisation crisis had lost its force before the close of spring. By October, when the civilian donation had ceased, the number getting the benefit of it had fallen to less than half a million. Indeed, so far from sinking into a depression the economy had soon begun to experience boom conditions and in the first two years after the armistice there was actually a labour shortage in Great Britain. Depression came only in 1921, after the boom.

This history is worth remembering. It would seem to show that practical experience does not lend support to the line of logic the validity of which in view of the absurd conclusion it led to, we were disposed to question. If the post-war events we have reviewed above can be taken as any sort of precedent, the more serious problem of the transition from war to peace economy would be not one of finding work for the soldiers and the munitions workers but one of preventing a false boom, which if allowed to develop must necessarily crash into a depression. And *a priori* reasoning would seem to confirm this expectation.

To be able to see how, it is necessary to have some clear idea of the state of affairs in the economy at the time of the armistice. Speaking in terms of finance there will have accumulated in the course of the war, mostly to the credit of businessmen and industrialists, an enormous volume of funds under four several heads : (1) depreciation funds set apart for the repair and renewal of the existing plant and machinery; (2) reserves built from out of war profits for post-war reconstruction and expansion; (3) savings, individual as well as corporate ; and (4) monetary compensation received from private insurance companies or under the compulsory governmental schemes of insurance for properties destroyed by enemy action. War-time controls in the shape of the now familiar systems of prohibitions, licences and priority certificates would have effectively

prevented the employment of these funds for the purposes assigned to them.

If these restrictions should be removed after the cessation of the war there would arise, almost immediately, a rush of demand on the part of the people in the possession of these funds, for instrumental goods of all kinds, for repair and renewal of the existing plant and machinery, which would now be in a badly worn condition, for the reconstruction of buildings, railways, factories, shipyards and other properties destroyed in the act of war or under the "scorched earth" policy and for implementing many essential projects which had been held in abeyance because of the war-time restrictions. The supply of these goods, the production of which had been forcibly kept down in order to enable a maximum of war effort, would not, however, be sufficient to cope up with this sudden rush of demand for them. Their price-level (and, therefore, the profits of their production) would consequently jump up above their war-time ceiling and entrepreneurs in the instrumental trades would embark upon an all-out effort to speed up their production. That is to say boom conditions will begin to set in that sector of the economy which produces instrumental goods.

Something similar would happen in the consumption trades also. Starved of their wants during the war years, there would be a general rush of desire on the part of the people at least to regain the pre-war level of their real consumption. Millions of men and women would heave a sigh of relief that the necessity for stinting and saving has passed and they will sally forth in their masses to purchase more food, new clothes, new furniture, new cars and new stocks of almost everything that comes to hand. And for doing so they would be in the possession of an accumulated reserve of balances which, owing to rationing or to the non-availability of consumption goods, had remained behind unspent. As the prospects of the continuance of full employment would also now be bright, consumption expenditure from out of current income, too, would be at a high level. To this pressure of demand would be added the demand arising out of the eagerness of the dealers at every stage of the wholesale and retail trade to build up their peace-time norm of the stock of goods. And, even as in the case of instrumental goods, supplies in the consumption goods market would considerably fall short of this aggregate demand; their prices as a result would shoot up and there would ensue greatly stimulated activity in the consumption trades. In other words, boom conditions will come to be experienced in this part of the economy also.

The boom conditions in the consumption and the instru-

mental trades, once allowed to raise their head, would feed on each other, gather momentum as they progress and would rapidly envelop the entire economy. But this cannot last very long. The boom must soon culminate into a depression and for reasons which are not far to seek.

On the termination of the war, speaking in terms of real resources as distinguished from financial resources, *i. e.*, speaking in terms of men, machines and materials employed in production, the economy would be in a state of utter exhaustion, especially if the war had been a prolonged one. The stock of machines (fixed real capital) in the economy would be generally in a deteriorated condition, as they would have received only the most essential repairs or merely patching up. And their numbers would be smaller than before the war through the normal rate of renewals not being possible or as a result of enemy bombing or such other destruction. The aggregate productive capacity of the capital equipment of the economy as well as its average coefficient of efficiency would be at a low ebb. Both would be lower than their peace-time norm.

The output of raw materials, too, will have suffered appreciable diminution as a consequence of the plantations being subjected to " slaughter tapping ", the raising of exhausting crops, insufficient restoration of fertility, deforestation and the like. Owing to the deterioration of their capital equipment the same would also be true of the output of the mines and other extractive industries.

Similar breaches will have occurred in the country's man-power also. The working population will have suffered in quality as well as in numbers. It will have suffered in quality through insufficient or no opportunities for training for their civilian occupations, loss of familiarity with their old jobs, overwork or shortage of food. It will have suffered in numbers through death or permanent dismemberment in fighting or as a result of the bombing of factories or cities. It will be sometime before the nation may return to the pre-war standards of numbers, age-distribution and efficiency.

This fact of the physical shortages in the economy, however, may not be realised by the individual savers, firms or entrepreneurs, who would be the parties responsible for the stimulated post-armistice activity. On the contrary they are most likely to be impressed by the magnitude of the financial resources accumulated to their credit. Indeed, they may consider it large enough not only for a return to the pre-war level of their capital equipment and production—the depreciation funds alone might, probably, be deemed sufficient for

achieving this—but also for taking them appreciably beyond that stage. The programmes of reconstruction and expansion, which the entrepreneurs would embark upon on the removal of the war-time restrictions, would be consequently designed to take the economy beyond the pre-war standards of equipment and production.

The available supplies of the real resources, or the men, machines and materials, however, would find this task clearly beyond their capacity. But for some time, while yet the men and things disengaged from the forces and the war trades would be available for employment, the inherent unsoundness of the programmes of reconstruction may not become apparent. On the contrary, the transition from war to peace might seem to be progressing splendidly well. Peace-time production would rapidly increase, incomes would be high and rising and the economy would show every symptom of prosperity.

But as the boom progresses the fact of the physical shortages in the economy would become more and more apparent and the illusion of the war-time paper riches would begin to wear thin. The prices of the factors of production would shoot up and the volume of the investment funds accumulated during the war would be found insufficient to complete the projects taken in hand. Shortage of funds would raise the rate of interest, which, in its turn, would depress share values and values of capital goods generally. This would reduce the margin of profitableness in the instrumental trades, or convert profits into losses, whereupon there will result unemployment and reduced production in the instrumental trades.

The consumption trades, however, will not be immediately affected by these changes. The rise in the factor prices, through enabling increased consumption expenditure, may, in fact, keep the consumption price-level rising for some little time, while the instrumental prices may have already begun their decline. But unemployment in the latter trades must, sooner or later, lead to reduced demand for consumers' goods, a fall in their prices and a consequent shrinkage in the volume of their output. Unemployment must then appear in the consumption trades also. Depression conditions would thereafter react on one another and affect the entire economy.

Theoretical logic, which would seem to be borne out by the experience of the years immediately following the last armistice, would thus seem to suggest that the transition from war to peace, assuming, of course, that the State did not take any corrective action, would be marked by three distinct phases of change, namely, a demobilisation crisis, a false boom and a

depression. Successful prosecution of the post-war measures of reconstruction require that steps must be taken to prevent these disturbing movements of the economy. The several methods of how this could be done is, however, beyond the scope of this essay. But I may refer the reader to my book on *The Post-War Depression and the Way Out.*

TRANSITION FROM WAR TO PEACE ECONOMY IN INDIA

BY

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[The paper is divided into two parts : (1) Prospect and (2) Policy. In (1) it is argued that in India because of the absence of any pent up effective demand on a large scale and of the prospect of a fall in agricultural prices, it is likely that a considerable slackening of economic activity might be expected after the end of the war. This tendency will be strengthened by the likely state of the rupee-sterling exchange, emergence of depressed areas, decline in Government outlay, and the demobilization of the army. These tendencies, if unchecked, will develop into a severe depression.

In (2) the policy for avoiding this undesirable development is discussed under two heads : immediate and subsequent. It is argued that the policy for the transition period must aim at achieving a synchronization of the unwinding of our war economy and the unfolding of government's plans of expenditure. During the transition period agricultural prices shall have to be stabilized by the aid of the present controls for preventing a collapse. Continuation of present control measures during the period after the war is absolutely essential. The monetary policy shall have to be one of controlled deflation and the fiscal policy one of high taxation and active borrowing. The Government will have to see that the present level of activity is maintained at a gradually decreasing scale of government expenditure. The problem here will be mainly of diversion and of the scaling down of the cost structure. The immediate policy before the war ends shall have to be one of avoiding inflation and of the lightening and integrating of all economic controls. This will solve many subsequent difficulties and will smoothen the transition from war to peace economy.]

The character of the transition period in India is likely to be radically different from that of the industrial countries of the West. In the latter the discussion regarding the transition from war to peace economy has tended to centre round two problems, the initial boom after the war and the consequent later depression. In agricultural countries like India such a development is not likely to take place ; for here the transition

from war to peace will not, as will be shown presently, give rise to a boom in the first instance, to be followed by a depression later on. The first step is more likely to be omitted and the unwinding of the Indian war economy, if not handled properly, is likely to go headlong towards a severe depression. This paper tries to visualise this likely course of development and to indicate the measures that will be necessary to smoothen out the complicated problems that are likely to arise therefrom.

1. *The Prospect.* The boom that is expected to develop in the Western industrialized countries will, it is prognosticated, mainly spring from the backlog of unsatisfied demand for durable and non-durable goods that has developed in those countries during the war period. This unsatisfied demand, kept in check by the wartime economic controls, will be backed by the pent up purchasing power that has also accumulated because of these controls. On the relaxation of these controls at the end of war, it is expected that this demand will begin to exert an upward pressure on prices and that this will mature into a short term boom. In India, however, the state of affairs is radically different; for though there is likely to be an enormous backlog of demand at the end of the war, it is very unlikely to be backed up by an adequate purchasing power. Demand there will be but it will not be effective; because whatever backlog of purchasing power there is likely to have developed during the war is bound to be very small for various reasons.

During the war India has suffered from a severe inflation. As in all inflations the gains of the inflationary process have not been distributed evenly among all the sections of the Indian public. While the great bulk of it has been hard hit by inflation the gains arising therefrom have been almost wholly netted by the small class of traders and speculators. The large majority of subsistence farmers along with the agricultural labourers, have gained almost nothing from the inflationary rise of prices; if anything this class suffered considerable losses. The class of substantial peasants of course gained profits, but the proportion of such peasants in the Wai region, for instance, could not be more than 20 per cent of the total rural population. (*War and Indian Economic Policy*, Gadgil Sovani, Second Edition, 1944, p. 93). This proportion is likely to vary in other regions. In drier and poorer tracts the proportion will be even smaller, but in other regions, as the Punjab, this proportion is likely to be much higher. Taking the country as a whole, however, the percentage of substantial peasants in the rural population is not large and consequently only a small proportion of this population

stands to gain from the inflation. Even so, there is every likelihood of the inflationary profits accrewing to this small class not being piled up; firstly because of the lack of strict economic controls on spending during wartime combined with the proverbial habits of improvident spending associated with the Indian peasant, a large part of these gains is likely to have been squandered away. Secondly, because a substantial proportion of such gains is likely to have been absorbed in buying the precious metals supplied with such vicarious generosity by the Government of India and in some cases in buying land. The funds locked up in precious metals, even if treated as liquid for the sake of argument, will lose much of their value after the end of the war; for with the almost certain crash of gold and silver prices after the war from their present inflated levels a large part of their investments will vanish into nothing and with no fault of the peasant at that. Most of the savings invested in war loans have flowed from the non-agricultural and urban sections of the population.

On the above considerations, it is clear that only a small proportion of the Indian peasantry will be in a position to make "effective" any pent up demand it might or might not have built up. In such specially circumstanced regions or areas as the Punjab, where there is likely to be a concentration of substantial peasants, there might occur a spurt of effective demand. But this will be more than counterbalanced by its fall elsewhere.

The case of the traders and speculators is slightly different, in this sense, that though they will be in a position to satisfy any of their pent up demands, it is very likely that they *have not* any such demand; for the accrewal of 'windfall' gains in the inflationary period, has prevented, in their case, any substantial reduction of their standard of living. In fact, it is very likely to be the opposite and this must have been favoured by the lack of strict economic controls on spending during the war period. A considerable part of these gains has been invested in previous metals, firstly as an insurance against insecurity engendered by war and secondly as a device for avoiding the income and the excess profits taxes. (The total sales of previous metals through the Reserve Bank might have absorbed, upto now, on a rough estimate, from about Rs. 70 to 80 crores.)

The war has led to an increase in the employment in industries. It has also thrown up considerable new urban employment in works connected with Government factories and other war services. Thus during the war period many an unemployed is receiving wages, and the rates of wages, under the pressure of wartime demand, have also substantially gone up. They are

in addition receiving dearness allowances, bonuses, etc. A considerably increased demand than formerly is therefore today flowing into the market from this class of urban and industrial labourers. These wage earners also do not seem to be laying by any nest egg of savings for the future. After the end of the war much of this employment will fall off and the wage rates will be also scaled down A large part of the present urban demand is thus likely to disappear in the period after the end of the war. In this case also no pent up effective demand is likely to manifest itself in the post-war period.

The industrial producers in this country have made substantial profits during the war period and in their case, unlike that of the speculators and traders, there is likely to be some amount of piled up demand for instrumental goods backed by purchasing power. Immediately after the cessation of hostilities many of them would want to replace the wornout machinery, to overhaul and restock their factories, and even to expand their production units. For this purpose there is likely to be considerable demand for instrumental goods from this class. As these will have to come mostly from the foreign countries this will express itself in the form of demand for foreign exchange. The effectiveness of this demand, however, will be obviously limited. For during the transition period any considerable "thawing" of the sterling balances cannot be expected and in consequence the volume of foreign exchange arising out of current trade will be only small. There are thus rigid limitations upon the "effectiveness" of the pent up demand on the part of the industrialists. It is again clear that a scramble for, or an haste in, buying capital goods immediately after the end of the war will involve a considerable loss. For the war-wrought and war-scarred economies of the West will be hardly in a position to supply newly manufactured capital goods during that period. This would mean that if there is a scramble for these goods by Indian industrialists just after the war they would get only old equipment, old both in age and technique, and that too, at inflated prices. Thus there would be a double loss. As already remarked a substantial part of this demand will be naturally nullified and therefore will be of small consequence as a whole. And this demand for expansion as will be shown presently, is likely to be short-lived.

So much for the pent up demand and purchasing power in India! On the above showing, therefore, this factor is not likely to give rise to a boom. There are other factors also which are likely to work in the same direction. These might be grouped under the caption "The character of the Indian market". The market for all

kinds of consumers goods in India is essentially a price market; *i. e.* the demand in it is very sensitive to price changes. The bulk of the demand for these goods proceeds from the agriculturists and is thus inextricably bound with their incomes, which in their turn are dependent upon the level of agricultural prices as related to the level of prices of manufactured goods. Immediately after the end of hostilities the prices of agricultural goods will develop an intensive sagging tendency. This only follows from the analysis of the causes of the present inflated prices of agricultural products, especially those of foodgrains; for these levels have resulted because of the vicious spiral of prices and supplies. It was artificial scarcity that brought about the steep rise in the prices of foodgrains. The end of the war will almost wholly do away with the causes of this artificial scarcity and this will inevitably result in a sudden and precipitate fall of the prices of foodgrains and other agricultural commodities. In fact the avalanche is almost ripe to fall. This might be also illustrated by citing the example of cotton. The cotton prices have declined during the past one year and a half. The demand for cotton from the Indian textile mills, now working to highest capacity, must be reckoned to have reached the highest attainable peak. This demand is being almost wholly met by Indian raw cotton but it does not seem to be exerting any upward pressure on cotton prices. After the close of the war the demand from the Indian textile industry will certainly fall off from the present level. Japanese textile industry, the big foreign customer for Indian raw cotton, will not take off a substantial amount of cotton from India, until it is rehabilitated and this may well take some years. The prospect is, therefore, one of continued depression in cotton prices. Again, in the world as a whole, it appears, that recovery in industry is likely to take more time than the recovery in agriculture and the demand for Indian raw materials is not likely to be heavy for a long time after the war ends.

The stage in India, therefore, seems to be well set for a fall in agricultural prices as soon as the war ends. Such a fall will of course bring down the incomes of the large mass of Indian peasants. The decrease in their incomes again will be larger in proportion to the fall in agricultural prices; for during the war period the agricultural costs such as the wages of agricultural labourers, the cost of implements, of cattle, etc. have considerably gone up and, as with all cost structures, they will come down only slowly. Thus the agriculturist's income will be indented on both sides and this will of course

mean severe decrease in the effective demand in the Indian market *i. e.* a collapse of the market.

Two considerations might be urged against the above view ; firstly, that after the war, there is likely to arise a world shortage of food stuffs and this will prevent their prices from languishing ; and secondly, that the experience of the last war shows that the agricultural prices will not develop a tendency to decline as outlined above. On a closer examination, it will be found, however, that both these considerations do not in any way invalidate the analysis so far developed.

As regards the first, though the fact of there being a world shortage of food stuffs after the war be true, it is extremely unlikely to push up their prices in the first instance and even if it does so, that will not affect prices in India. The steps now being taken by the United Nations with a view to relieve the post-war shortage of food stuffs through the U N R R A are clear indications that this expected shortage will not be allowed to be exploited by traders and speculators to bid up the prices. By concerted action these prices will be effectively controlled. Even assuming that there is a rise in the prices of food stuffs, it will affect the prices of food stuffs in India only if these enter into her international, or more particularly, her export trade. This is not likely to be the case during the transition period. For India has, by law, ceased to be an exporting country in the matter of food stuffs and she is likely to remain so for a long time. U N R R A, it might be also expected, is not likely to demand from India any contribution to the pile of food stuffs, in view of the prevailing shortage in India. It should also be remembered that the Government of India, having once decided to control foodgrains prices, cannot afford to let them go out of hand.

In regard to the second consideration, the expectation of a considerable slackening of economic activity after the war would seem to be the exact opposite of the developments after the last war and by analogy many will be tempted to deny the realism of the above view. Yet the contradiction is only apparent than real. The developments after the last war may be briefly recapitulated. During the last war up to 1917 the prices of agricultural goods, except those of cotton, rose only slightly. The prices of manufactured and imported goods had felt the heaviest pressures from the start and had advanced considerably. In 1918-19 there was a widespread failure of rains and subsequently a large scale famine developed. Agricultural prices were pushed up largely by this widespread and severe famine. Another influence was the boom that developed uncheck-

ed in the Western countries just shortly after the Armistice in 1918; for this boom was reflected in Indian prices, though in a somewhat lessened proportion because of the rising exchange. The rise of prices after the last war was thus largely and initially caused by a severe famine, and was subsequently strengthened and accentuated by the importation of the boom in the international markets. During the present war the conditions are radically different. Agricultural prices after skyrocketting to a peak are already on the decline in India. Famine is of course unpredictable and as such cannot be the basis of any economic analysis or argument. The prospects of a post-war boom in the Western countries are also very limited this time; for such a boom will not be allowed to develop unchecked this time. Like inflation during war-time, that will be also prevented. Thus the exchange is not likely to import any boom into India this time. On both these counts, therefore, there can be no reasonable expectation of a boom in agricultural prices after the war, barring of course a severe and widespread famine (natural not man-made).

The prospect of a fall in the prices of agricultural goods and the consequent fall in the incomes of the peasants may be now taken as fairly established. As already remarked the first and the foremost consequence of such a development will be a considerable slackening of "effective" demand in the Indian market. As this market is essentially a price market and as the prices of manufactured goods will not record a proportionate fall, the depression in agriculture will soon spread to industries as manufactured goods become "unsaleable" in the market. There will be a slackening of demand for industrial goods. If this slackening is allowed to develop unchecked it might portend a severe depression.

Several factors in the Indian situation are likely to aggravate this tendency towards a depression in both the fields of agriculture and industry. First among these must be mentioned the state of the rupee-sterling exchange. The rupee, as it is today, and as it is likely to remain till the end of the war, is externally overvalued. The extent of the "gap" between the internal and external prices of the rupee can be roughly gauged by the difference between the internal price levels in India and England respectively bearing in mind, of course, that such comparisons are not strictly accurate. In March 1944 the index of wholesale prices in U.K. was 167 and that in India was 236·3 (base: August 1939 in both cases). The "gap" would thus broadly work out at 70 per cent. With the lifting of the exchange controls at the end of the war and the resumption of a

comparatively freer trade the internal and the external prices of the rupee will tend to adjust themselves *i. e.* to eliminate the "gap" calculated above. This can come about in three possible ways : (*i*) a reduction of the present sterling rupee exchange rate, (*ii*) a considerable rise in the price level in U. K. and the other sterling area countries, and (*iii*) a reduction of the internal price level in India. The first two are obviously out of account. A substantial reduction of the rupee-sterling exchange rate immediately on the secession of hostilities is unlikely, particularly in view of the provisions regarding exchange rates, etc. of the International Monetary Fund. There also cannot be any legitimate expectation regarding a rise in the price level in U. K. and other sterling area countries ; for they have rigidly controlled prices during the war period and are not likely to allow a price bulge to develop at the tail-end of the war. The adjustment of the internal and the external prices of the rupee is therefore not likely to be helped much from the external side and in consequence the main brunt of adjustment will have to be shouldered by the other or the internal side. The analysis and forecast of internal prices after the war that has been developed so far, indicates that internal prices are likely to fall. This will of course help and quicken the process of adjustment and the elimination of the "gap". But the process itself will not be catalytic. As after the last war the effort to maintain an overvalued exchange will result in the wastage of a large part of our sterling balances. It will release deflationary forces of its own in view of the large 'gap' that has to be made good. It will thus aggravate the already set up tendency of prices to break and what is worse, will, in that process, make into thin air a substantial part of our sterling balances.

Some other factors working in the same direction may be also mentioned. During the war-period the Government of India has actively entered the field of production and the number and size of government factories in India has considerably increased. The available figures show that the Government and Local Fund factories, both perennial and seasonal, employed on an average 132,446 workers in 1939. This number had increased to 355,873 in 1943. The increase of about $2\frac{1}{4}$ lakhs, in comparison with the total employed in large scale industrial establishments in India does not appear to be very sizeable. But as an aggregate of expanded employment it is certainly not inconsiderable. Besides, around these expanded and/or newly built up factories a considerable amount of ancillary and complementary activity has sprung up and this has also offered a large amount of additional employment

to the people. The total increase in employment in Government factories and in works connected with them can be together put approximately at 5 lakhs. This increase in employment has given rise to a more than proportionate increase in economic activity in areas in which the Government factories are located. A disproportionate increase in wage rates has also accompanied the process of expansion in these centres. This has created, what may be called "extra-active areas" all over the country. The termination of war contracts and the closing down of a large number of these factories and decrease in works connected with them at the end of the war as well as the reduction of the prevailing wage rates will prick this disproportionately inflated bubble, and, it might be expected, with equally disproportionate reactions in the opposite direction. Just as the setting up and expansion of these factories at the beginning of the war brought into being "extra-active areas" so also their closing down is likely to convert these into "depressed areas". Such areas will be of course somewhat compensated by the emergence of certain 'active areas' in the post-war period, as might for instance be expected in the case of the Punjab. But activity in these latter will not be large enough to stay the general slackening elsewhere.

There will be falling off of Government expenditure on a large scale at the end of the war and this will also work towards slackening. During the war the outlay on Government's account has increased manifold. In the Provincial Budgets the expenditure and revenue have increased roughly from about Rs. 84·5 crores in 1938-39 to Rs. 156.5 crores in 1944-45. In the Central Budget, during the period 1938-39 to 1944-45, while the revenue receipts have increased from Rs. 84·52 crores to Rs. 308·47 crores (including new taxation), expenditure shows an increase from Rs. 84·15 crores to Rs. 363·18 crores. To this latter must be added the expenditure that the Government of India undertook on behalf of U.K. and other Allied Governments which has averaged about Rs. 250 crores a year since 1940-41. The increase in the overall expenditure in the Central Budget might be put somewhere near Rs. 300 crores annually. It requires no elaborate argument to prove that a falling off in this inflated Government outlay will naturally have a depressing effect on economic activity through employment, industry and trade.

Last but not least must be mentioned the depressing effects that would flow from the demobilization of the enormously expanded Indian army (more than 20 lakhs). Army employment on this scale has made for a constant flow of a considerable

amount of liquid wealth into the rural countryside. With army demobilization this stream will dry up, not immediately, as some soldiers might return with savings, etc. but after some time and this will depress the countryside generally. It might also be expected that the whole of the Indian army will not be demobilized and that it will be maintained on a larger scale than in the pre-war years. The plans that are being drawn up at present for rehabilitating the soldier might go a long way in mitigating the evil, provided they are extensive enough and are timed well. But more of this anon.

To sum up the argument so far : Because of there being no pent up effective demand on a large scale in India and because of the prospect of a fall in agricultural prices, it is likely that instead of a boom as in other industrialised countries, a considerable slackening of activity, which if unchecked might lead to a severe depression, might be expected in India immediately on the cessation of hostilities. This development is likely to be strengthened and accentuated by the likely state of the rupee-sterling exchange, the emergence of depressed areas and the demobilization of the army. It is obvious on the above showing that this will be the main problem that shall have to be tackled during the period of transition. The economic policy during this period must, therefore, be mainly directed towards the solution of this problem.

2. *Economic Policy* : The discussion regarding the appropriate economic policy for the transition period naturally divides itself into two parts, one dealing with policy to be followed during the transition period *i.e.* immediately after the end of the war and the other dealing with the policy that shall have to be followed in the war period to ensure the success of the former. The latter is of course the immediate and the former the subsequent. The problems of the transition period will be rendered more intractable in proportion to the scope the present policies allow for unwarranted distortions to arise in the economy. Both the immediate and the subsequent policies are thus really inseparable ; for the latter must be a logical evolution and development of the former. This will be still more clearly brought out if the general outlines of the problem to be tackled during the period of transition is briefly sketched. As shown above, there is a prospect of a considerable slackening of economic activity both on Government and private account immediately after the termination of hostilities. If these slackening tendencies, arising out of a *catena* of causes, are allowed to gather strength a severe depression might follow. The objective of the economic policy during the period of transition

is, therefore, mainly the prevention of these slackening tendencies from developing. This will have to be achieved by filling the void that will be created in the sphere of economic activity both on private and Government account once the demands of war economy disappear. The present expanded volume of economic activity has mainly come about on account of and through Government undertakings to meet war needs. The void in economic activity both on Government and private account that will develop shall have to be, therefore, filled firstly by maintaining the level of activity on Government account diverted to peace-time needs, and secondly, by the active maintenance of an environment that will ensure the present level of activity on private account by an easy diversion into peace-time channels of activity. A policy for the period of transition must thus necessarily achieve a synchronization of the unwinding of our war economy and the unfolding of Government plans for expenditure, such as are now being drawn up.

Before going on to a detailed consideration of immediate and subsequent policy it is necessary to indicate a general consideration. India has experienced a disastrous inflation during the war period and this, apart from anything else, has given rise to numerous distortions in her economic structure. These distortions will have to be simultaneously tackled during the period of transition along with others and an effort made to eliminate as many of them as possible. Thus the policy shall have to be at once a policy of controlled deflation and of the maintenance of the present level of economic activity. Both these aims are not contradictory as might at first appear. It is not necessary to maintain the present inflated and distorted structure of costs, etc. for sustaining the present level of activity Even with a gradually falling expenditure accompanied by an appropriate scaling down of the cost structure, it will be possible to maintain the present level of activity. If the analysis developed so far is correct, it follows that the king-pin of the problems of the transition period is the state and level of agricultural prices. The monetary and fiscal policies will have to be built up to subserve this nuclear aim of policy. And in all these three as will be explained in detail, the policy will have to be one of controlled deflation.

I now proceed to a detailed consideration of policies both immediate and subsequent and I begin with a consideration of the latter. As already remarked this division is rather unreal and is here adopted only for analytical convenience. The consideration of the subsequent policy has been given the first place, again for convenience of analysis, as a proper view of what the

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subsequent policy should be, would mainly indicate the lines along which the immediate policy shall have to be framed.

Agricultural prices hold the key position and the primary object of economic policy during the transition should be to see that the bottom is not knocked out of them by the first impact of peace. In effect, the problem is one of their stabilization. The problem of price stabilization immediately brings up two problems: the level of prices at which stabilization is to be attempted and the method and the machinery for such stabilization. Comments are called for on both these problems.

The level of stabilization, it is obvious, cannot be the present inflated level. This is particularly so with regard to foodgrain prices. At the present level they are beyond the means of the urban poor in India in consequence of which they have to go without sufficient food at present. The present level of foodgrain prices must be brought down with reference to the costs of cultivation before it is stabilized. So also with regard to other agricultural products. But this does not give any positive criterion of the level of stabilization. For this it is necessary to look at it from the point of view of the parity of agricultural with industrial prices. If the level of agricultural prices is considerably below and distant from the level of industrial prices, it is obvious that the demand of the peasant for the latter kind of goods will be proportionately less. The relative position of these price levels has a good deal to do with the total demand on the Indian market. This factor is therefore of considerable importance for determining the level of stabilization. In March 1944 the Index Numbers of wholesale prices of "Food and Tobacco", "Other Agricultural Commodities" and "Raw Materials" were 283·8, 199·5 and 196·6 respectively, while the index of the wholesale prices of "Manufactured Goods" stood at 252·3. The abnormal level of foodgrain prices has already been referred to and the need for its bringing down has also been urged. If the other two indices are compared with the third the disparity between them appears almost glaring. In choosing the level for the stabilization of agricultural prices this disparity must be sought to be remedied. Given the objective of keeping up the volume of effective demand in the Indian market it is necessary to ensure the continued accrewal of some profit to the Indian cultivator. And this essentially depends upon the maintenance of parity between the price level of agricultural and that of manufactured goods. This in effect means that the planning authority must try to build up an integrated structure of all prices in the country. This is not of course incompatible with the bringing down of the absolute levels of

all prices at present obtaining. The level for the stabilization of agricultural prices would thus appear to be a position in the general structure of prices rather than any particular level. These prices brought down to an appropriate level, should serve as the nucleus around which a whole price structure can be built up.

What would be the machinery for such a stabilization? This is of course to be found in the economic controls that have been evolved during the war. At present the controls of agricultural prices in some of the provinces, like Bombay, have taken the form of a more or less complete control over supplies and distribution. In Bombay control over supplies has been secured by a compulsory grain levy and various regulations on the cultivation of food and commercial crops, etc. On the distribution side the extension of partial or full scale rationing in towns and villages is the main instrument of control. The lessons of many an unsuccessful control in India has clearly shown that the control of prices can be only successful if it is accompanied by a complete control (or at least control over the major part) over supplies and distribution. It therefore only follows that the present controls must be continued during the transition period and should be used as the prime instruments of stabilization. And it is here that the Government shall have to stand firm against pressure groups. Government must continue to control all prices for there certainly will be an amount of clamouring for the relaxation of controls, particularly with regard to the prices of manufactured goods, from the trading and commercial classes in India after the war. If Government yields to such pressure and relaxes such controls the position will be rendered chaotic with most disastrous consequences. The controls must be continued during the period of transition. But in order that they should prove an effective instrument it is necessary that they be strengthened, integrated and extended. That aspect of the question will be more appropriately discussed in connexion with the considerations of immediate policy. The fact, however, might have to be emphasized that the success of the policy of stabilization in the period of transition will largely depend upon the potency of the economic controls it will inherit from the war period.

Monetary and fiscal policy during the transition period, with the peak of inflation already left behind, shall have to be as emphasized earlier, necessarily one of controlled deflation, *i.e.* it will have to be so framed as to allow the deflation necessary for the restoration of normality but which will also prevent its going further than this effectively. And again it

must aim at avoiding or preventing a sudden collapse of the price level and at bringing about only a gradual fall of prices. It will be thus necessary for the Government to borrow on a large scale to maintain the level of activity and it shall have also to exert a downward pressure on all the prices it controls and this would bring about the appropriate contraction of currency.

The Government of India will have also to concern itself with the problem of the adjustment of the rupee-sterling exchange, mainly by controlling foreign trade *i.e.* by maintaining the present controls over import and export trade. For if an unfavourable balance of trade develops on a large scale it will involve the indiscriminate frittering away of a considerable part of our sterling balances. This shall have to be prevented by controlling the total volume of imports. A disproportionate favourable balance of trade will mean a building up of foreign exchange resources which can be ill afforded by an already exhausted economy. This shall have to be prevented by export control. The control of foreign trade should be so directed as to keep even the volume of exports and imports.

An appropriate fiscal policy will also have to be deviced to back up the monetary policy. The Government of India must be in ample funds during the transition period ; for then alone will it be in a position both to control the rate of deflation and the scale of expenditure. The expenditure of course cannot be maintained at its present level. That shall have to be cut down. But the fiscal and other policies can be so dovetailed as to maintain the present level of economic activity even with a gradual fall in the money outlay. At the present inflated and abnormal level of prices and costs the present scale of Government expenditure is needed for sustaining the present level of activity. The latter can be sustained even at a much reduced expenditure if the cost and price structure is appropriately scaled down. The appropriate fiscal policy will thus have to be one of high taxation and active borrowing. High taxation as at present, with the necessary modifications, shall have to be maintained in spite of the opposition it will encounter from the 'pressure groups' in the country. The prospects and possibilities of a capital levy shall have to be gone into. A policy of active borrowing on a large scale will be also necessary and this will mean the active maintenance of the controls over capital issues, etc. for channelling savings into Government loans during the transition period. During the war the Government has borrowed for war purposes. In the transition period and after, it shall have to borrow for peace-time plans of development and reconstruction.

And it is here that the plans of post-war reconstruction now being drawn up by the Central and the Provincial governments, fit into the picture. Large scale economic planning logically involves increasing government control over production and distribution. Under the stress of war-time need the Government of India, abandoning its traditional policy of *laissez faire*, has actively entered this field. The post-war plans now foreshadowed indicate that Government participation and control will or rather must, tend to spread further and further in the post-war period. During the transition period the main task in this direction will have to be that of diverting the present or war-time undertakings of the Government into peace-time channels. Such a diversion will lay down the requisite basis for further plans of development that are being produced at present.

A few possible lines of such a diversion can be broadly indicated as follows :

(1) The expanded and newly built up ordnance and other factories can be converted into factories producing peace-time goods ; as for instance the heavy chemical factories can be converted to produce fertilizers, industrial chemicals, etc. Engineering and other workshops can be easily adopted for the production of agricultural and other implements. It should be stressed in this connection that India's peace-time demands for war materials in the post-war period would be perhaps much higher than they ever were in the pre-war days and consequently a significant proportion of the expanded and newly built ordnance and other factories will have to continue to produce the same goods. But others can be converted. In retaining some of these factories and in converting others the Government will be helping to keep up the present volume of employment offered by them, though the Government shall have to bring down and adjust the present rates and levels of wages, in accordance with its policy of scaling down the cost structure.

(2) Around the main factories, referred above, and also in connection with other military activity, a considerable volume of additional economic activity has grown up; as for instance, the building of barracks, making of furniture, provisioning and catering for military personnel, etc. The activity is conducted largely on contract and sub-contract basis. This work and activity have also thrown up considerable additional employment. The Government can take steps to divert this activity into similar types of activity with more thoughtful control and at much less cost. The contractors, for instance, engaged at present in building activity can be roped in by the Government

for the construction of Government buildings such as schools, offices, the building of roads, etc., for which the Government is already drawing up plans.

(3) The demobilized soldiers can be diverted into some peace-time activity and the Government is already drawing plans for the rehabilitation of the soldiers. In this context also, it should be remembered that the Indian army shall have to be much larger in the post-war than in the pre-war days.

(4) The medical and engineering personnel now recruited by Government can also be fitted into the picture of post-war reconstruction plans. The medical service-men can be diverted into the newly-created State hospitals, etc. The general policy in regard to those now in Government employ, should be to keep hold of them and to divert them under government aegis into other peace-time activities.

(5) After the end of the war, and even before it, the Government will have on its hands large amounts of capital goods, such as, machines, equipment, buildings, etc. If they are dumped on the market in a lump, it will induce a severe fall in their prices. This depreciation will involve a great loss in real terms. The psychological effects of such dumping will be even more far reaching and persistent. The disposal of these surpluses therefore shall have to be judiciously arranged and planned. The tools or machines should be only given to those who have a real need for it and who will use it as such. They should not be sold to mere middlemen who are bound to make a " racket " of it.

The success of the economic policy during the transition period, it has already been pointed out, depends upon the character of policies followed during the war-period. It is thus necessary to sketch out the immediate policy or rather the orientation of policy that shall have to be immediately attempted to ensure a smooth transition. The difficulties of transition, as remarked previously, will be in proportion to the degree of distortion that is allowed to develop in war-time economy. If the policy during war is judicious and correctly conceived such distortions will be the barest necessary. In India for a large part of the duration a free scope for growth has been given to all types of distortions. Economic controls of a somewhat comprehensive character have appeared very lately on the scene and even these are not fully integrated. They have been brought into being in a haphazard manner and are in consequence effective only in spots. The existing controls in India are eliminating the distortions, if at all, only at a very slow rate. If this state of affairs is allowed to continue the problems of the

transition period will be very hard indeed. Whatever success the present controls achieve in eliminating the distortions now will go a long way towards mitigating the difficulties of the transition period. Immediate policy therefore should be directed at extending, integrating and strengthening of the existing controls as well as the institution of newer ones if necessary. It has been pointed out earlier that a stiffening and integrating of the controls over prices will be necessary both for the providing of floors to agricultural prices and for building up a structure of prices. And this has to be done now *i e.* before the war ends.

It is also necessary to have an appropriate monetary policy. It should aim at avoiding all inflationary finance by putting a stop to any further expansion of currency and a judicious policy of contraction must be initiated now. The total government outlay should be met through taxes and loans. The internal price level must be brought down to narrow the exchange " gap " referred to already.

Surpluses are already appearing at various stages of production and the disposal of these surpluses is engaging the attention of the Government of India at present. It is again necessary that surpluses should be slowly released on the market. If they are dumped it will mean a considerable loss.

During this period the Government should prepare and keep ready all its post-war plans for expenditure so that they can go into effect at the shortest notice. The constant aim should be the prevention of any large scale void developing in the sphere of economic activity. It is quite likely that, even before the war ends, Government shall be reducing employment in its factories and workshops and care should be taken to see that the workers thus released from war work are re-absorbed, or rather diverted, into work connected with post-war reconstruction plans. The synchronization of these two, as already remarked, is very important. It is therefore necessary for Government to hurry up with their schemes of expenditure for the post-war period and these should be put into effect at the same rate and at the same time at which activity connected with war slackens.

SOME ECONOMIC AND FINANCIAL PROBLEMS OF THE TRANSITION FROM WAR TO PEACE

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[**Part I** contains an account of some general problems arising out of the transition from war to peace economy. Reference is here made to the problems of demobilisation and re-employment, industrial reconversion, inflation and deflation, decontrol etc.

Part II discusses the same problems with reference to the Indian situation. The peculiarities of the Indian transition problems are shown in each case. Thus, it is shown that with us, demobilization of the military and civil personnel may create the problem, not of re-employment, but of unemployment; the problem of industrial re-equipment would be one, not of reconversion but of expansion. Further, the immediate danger after the war would be not so much inflation but a rapid deflation involving depression and unemployment. In the light of these peculiarities, it is maintained that in India the objectives of economic policy of the transition period would be the same as those of long-range planning.

Part III is devoted to a discussion of the financial problems which would arise during the years after the war. In this connexion, stress is laid on certain aspects of financial reform such as long-period budgetting, separating the current from the capital budget, etc. Further, certain problems of public expenditure are set forth in the light of the economics of the transition period. Lastly, the subject of tax reform with reference to Central and Provincial Finance is discussed in the light of a tentative analysis of the incidence of taxation.]

I

GENERAL FEATURES OF THE TRANSITION ECONOMY

The nature and magnitude of the economic readjustments which the transition from war to peace must necessarily involve would depend upon the structural changes occasioned by the original transformation from peace to war economy. Though, for this reason, the period and extent of the transition would differ in different countries, its characteristic problems would appear to be the same everywhere. Thus, it is fairly certain that in most countries affected by the war, the transition to peace would raise the following problems :

(*i*) The immediate problem would, of course, be that associated with the demobilization of the personnel engaged in military and civilian war-work. Demobilization of this per-

sonnel would create a problem of re-employment on a vast scale. But as Professor Pigou has shown, the number of persons released from war-work would be somewhat in excess of that seeking re-employment, since the former number must include many persons who would normally retire or take training in schools and colleges, or be otherwise withdrawn from the labour market for some time. The magnitude of this problem of re-employment would, however, be immense in most countries, and it would necessitate a good deal of preliminary planning on the part of governments and other public bodies.

(*ii*) The second problem would be that of demobilization of capital equipment. In every country engaged in war production, capital equipment will have to be re-converted to peace-time requirements on a large scale. This process of re-conversion would also necessitate governmental assistance and planning.

(*iii*) The transition period would also raise the possibility of cyclical fluctuations of prices and productive activity. In most countries, especially in the U. K. and U. S. A., the possibility of a post-war inflation and subsequent depression has been widely recognised. It is felt that soon after the termination of hostilities the inflationary forces which have been kept under control for the duration will be released, and that they will result in a price boom such as was experienced during 1918-20. It is doubtless that several factors in the post-war situation would tend towards this result. The termination of the war would find several countries crippled in respect of capital and raw-material, while the process of re-equipment and reconversion would necessarily take a long time. As a consequence, the productive capacity of such countries in respect of consumer goods of all kinds would be seriously below the pre-war level. On the other hand, the consumer demand and purchasing power pent up for the duration may be suddenly released after the termination of hostilities. The war-savings would in a large measure be converted into current income ; the deferred pay would also be available for current uses ; demobilization bonuses would also swell purchasing power. All this increased purchasing power would render effective the demand for food and other more durable consumers' goods, houses, machines, raw-materials etc. which is bound to arise in every country. This demand would be particularly heavy in those countries which have been impoverished and devastated by the Nazis. The rehabitation and reconstruction schemes in such countries would exercise an inflationary pressure of great magnitude.

If inflation does take place, the consequential danger of a price collapse and depression would have to be reckoned with

the experience of the last post-war period amply bears out this possibility; to avoid it, therefore, would be one of the principal problems of the transition period.

(*iv*) The foregoing problems would naturally raise the issue regarding de-control. The various controls on consumption, investment, production, imports and exports, etc. which have been established in the interest of war may appear to be superfluous with the return of peace; but it could be shown that immediate de-control would immensely complicate the economic situation after the war and may even foster some of the disturbing factors therein. It is justly feared, for instance, that immediate de-control would strengthen the inflationary potentialities described above and would render the consequential collapse inevitable. Hence it would be necessary to retain some of the economic controls, especially those on consumption and investment, in the transition period so as to smoothen the readjustment from war to peace.

(*v*) Another equally important problem of the transition period would be that in connexion with the settlement of monetary obligations among the nations, and the ultimate establishment of some form of international control over money and finance. A beginning in the solution of these problems has already been made at the World Monetary Conference held recently in America.

(*vi*) Lastly, with the return of peace, almost all countries will be faced with the task of long-range economic reconstruction with a view to providing "social security" and raising living standards. Perhaps this problem may not be regarded as strictly belonging to the transition period; but in most countries the problems of transition proper will be intimately connected with this larger problem of long period planning.

II

PECULIARITIES OF THE ECONOMIC TRANSITION IN INDIA

The Indian economic situation at the end of the war would present several peculiarities. For instance:

(*i*) in India demobilization of the war-workers may raise the problem, not of re-employment, but in some measure, that of unemployment. There is reason to believe that there was a fair volume of unemployment in India during the period immediately preceding the war; it may, therefore, be reasonably assumed, that a good portion of the personnel at present on active military or civilian employments was unemployed before

the war. In so far as this is true, the problem at the end of the war would be, not one of transferring the war workers to their original employments and occupations, but that of creating new avenues of employment for them in various fields of productive industry.

(*ii*) Again, the problem of reconversion of equipment may also present itself in a somewhat different form here. In India war production has involved a good deal of industrial expansion, and not merely industrial conversion. It is true that some technical conversion has taken place in connexion with the production of machine tools and munitions ; but more than this, there has been an expansion of consumer goods industries such as cotton textiles, paper, sugar, leather, cement, tea, etc. Hence, over a large field of industry the post-war problem may be not one of reconversion of the technical equipment, but rather that of maintaining and even increasing the rate of industrial expansion. In so far as this latter would be conditioned by the possibility of importing machinery and the accessary technical equipment, the problem would assume a financial aspect, since it would be connected with the technique of the repayment of our sterling balances.

(*iii*) Thirdly, the problem of inflation and deflation may also exhibit certain peculiarities in this country. As already observed, while in countries like U. K. and U. S. A. there are fears regarding the development of inflation, in our country the danger of an immediate price slump and depression is considered by some to be more probable. Here, a good deal of inflation has already taken place as a result of the Government's methods of war finance, particularly the method adopted for financing the Allied purchases in India. At the end of the war, this inflationary force would largely vanish, and the high price-level supported by it would tend to collapse. Further, the inflationary pressure which in other countries, would be exercised by the shortage of consumer goods would operate with less force here, owing to the comparatively inelastic character of our consumer goods production, especially, food-stuffs. Hence it is feared that a price slump may develop in India earlier than elsewhere, and perhaps, without the intervening period of inflation.

(*iv*) The fourth peculiarity of the Indian transition period is of a financial character. It is well-known that this war has converted India from a debtor to a creditor nation in international finance. This has been the result of sterling payments made by Britain to India's account in respect of her war purchases. The accumulated sterling resources would create a "transfer" problem of peculiar difficulty.

(*v*) If the foregoing analysis is correct, then it leads to a conclusion of some importance with reference to the problem of long-range planning in India. It would appear that in India the economic problems of the transition period are inseparably connected with the problem of long-term economic reconstruction. The objectives of long-range planning—raising the per capita income, creating profitable employment in various branches of economic life, securing expansion of productivity in every field, securing internal and external finance so as to enable all these schemes to be undertaken—all these also constitute the objectives of the economics of the transition period. This would imply the necessity and wisdom of a unified economic policy in respect of the short-period problems of the transition and the long-period problems of economic reconstruction.

III

PROBLEMS OF PUBLIC FINANCE DURING THE TRANSITION PERIOD

The economic problems of the transition period described above would involve certain policies and measures in the sphere of Public Finance. At this stage it would be obviously impossible to foresee in detail the financial situation which would arise during the transition period ; but certain problems and policies can be visualized and discussed in their general form.

The financial problems of the transition may be broadly classified as follows: (*i*) Budgetary problems arising out of the disequilibrium between current income and expenditure. (*ii*) Problems relating to public expenditure and (*iii*) Problems of readjustment and reform of taxation.

(*i*) The Budgetary Problem. In most countries the transition period would involve maladjustments in public revenue and expenditure. These maladjustments may not, perhaps, reveal themselves immediately after the cessation of hostilities, since for sometime war levels of taxation may have to be retained. But after this period is over, there would arise the necessity of incurring large volumes of expenditure in connexion with demobilization and other measures arising out of the termination of the war. Similarly, the necessity of financial assistance to industries for re-equipment, as also the financing of schemes for repairing war damage to houses etc. may also lead to large public outlays. Further, plans of social security and economic reconstruction would also impose heavy financial burdens in the years of peace following the war.

In India, the present war has led to deficit-budgetting in Central Government finance; but in the case of most provinces, large revenue increases have given rise to huge budget surpluses, which in many instances have been utilized for building up post-war reconstruction funds. It is possible that the transition period may exhibit a Central surplus for a time, while in Provincial finance, it may cause deficits owing to increased expenditure on scheme of re-employment of demobilised personnel, and also on the plans of long-period reconstruction. Again, if a post-war slump comes about, tax revenue would suffer in more or less measure at the Centre and in the Provinces. Under such circumstances the technique and policy of budgetting may have to be suitably modified. The following suggestions are made in this connexion :—

(*a*) During the transition period, the principle of annual budget balancing should be given up, and the policy of long-period budget planning should be adopted. As is well-known, this latter policy has been recommended in connexion with the problem of eliminating the trade cycles; its adoption would seem to be appropriate in the post-war period during which it would be difficult to maintain an year-to-year equilibrium in the budget.

The problem of long-period budget balancing came into prominence during the last depression when it was realised that the orthodox principal of annual budget balancing tended to produce a deflationary effect upon the economy. Since that time many economists have favoured what is called a Trade Cycle Budget, in which revenue and expenditure are balanced, not annually, but over a period of about eight years covering a trade cycle. This would naturally involve deficit budgetting in the depression and surplus budgetting in the boom period so as to cancel out the deficit. This idea, however, was opposed by some English economists, who published a Memorandum on this subject in *The Economist* in 1938.* Interest in the idea of long-period budgetting has been revived recently as a result of the publication of the British Government's White Paper on Employment Policy with reference to the post-war period. In the section dealing with Central Finance the White Paper more than suggests that Government action for maintaining full employment may mean the abandonment of the "rigid policy of balancing the budget each year regardless of the state of trade", though it "certainly does not contemplate the departure from

* Cf. *Memorandum* by Hall, Henderson, Crowther and others in *The Economist*, June 11, 1938.

the principle that the budget must be balanced over a longer period." It would seem, then, that the British Treasury is now almost prepared for the adoption of the policy of long-period budgetting in the immediate transition period and in the period of long-range reconstruction with a view to securing full employment.

Such a change of budgetary policy would seem to be desirable in the sphere of Indian Central and Provincial finance in the post-war period. In the past the Central and Provincial governments rigidly followed the policy of annual budget balancing, even in periods of severe depression. If one reviews the course of Central finance during the inter-war period, one is struck with the "cycle-sensitivity" which it has exhibited in a pronounced degree. The minor and major depressions (*e. g.* those of 1921-23 and 1930-35) of our economy have produced budget deficits, which have been corrected by a ruthless policy of additional taxation and retrenchment. It is true that by such measures budgetary balance was achieved, but the process involved a severe deflationary effect on the already depressed economy. In the Provinces also, similar policies had been adopted during the last depression. Though Indian Provincial finances are less "cycle-sensitive" than the Central, the depression of the thirties did produce large budget deficits in the former, and they were corrected by a similar policy of additional taxation and retrenchment.*

Such a policy will simply not do in the periods of transition and long-ranging planning after the war. The adoption of measures of re-employment and reconstruction in agriculture and industry would naturally introduce an element of uncertainty in the Central and Provincial budgets, and it would preclude the rigid adherence to the principle of annual budget balancing. It would, therefore, appear that long-period budgetting is the necessary concomitant of planning in the post-war years.

(*b*) Another budgetary change, which would seem to be complementary to the one already discussed, relates to technique of financial accounting. At present, revenue and capital accounts are mixed up in our budgets in a manner which causes a good deal of confusion. In the future, the budgetary technique may have to be modified so as to show two accounts—a revenue and a capital account—rigidly separated from each other. In fact, it may be convenient to have two separate

Cf. the present writer's article "*The Depression Finance of the Bombay Government*" (*Indian Journal of Economics* April 1941), and his forthcoming publication, *A Review of Bombay Government Finance.*

budgets altogether, a revenue budget including normal receipts and expenditure, and a capital budget, containing an account of loans and advances for reconstruction.

(*ii*) The expenditure problems in the transition period would be those connected with schemes of re-employment and with those of long-period planning. The volume of those items of expenditure would differ in different governmental units. It is not easy at this stage to visualise the magnitude of this expenditure for the Central and Provincial governments in India ; but it is doubtless that it would not be such as to be financed out of the normal revenues to any large extent. Its financing, therefore, would raise several problems of taxation, such as maintaining the war-time levels of taxes, or imposing additional taxation, revising the scheme of distribution of revenue sources as between the Central and Provincial governments etc.

Another equally important problem of expenditure would be in connexion with the salaries of the Government servants. The war-time price movements have completely upset the relationship between the scales of salaries and real incomes of all fixed-income earners, and at the end of the war the problem of revision of scales must come up as an urgent item of financial policy. But it is obvious that this problem would be incapable of solution as long as the price-level has not been stabilised. If the inflationary price-level continues for some time after the war, it would be difficult to resist the claims of statutory servants for an upward revision of scales. From the experience of the last post-war period, however, it would appear that the policy of wisdom would be to postpone the permanent revision of scales till after the transitional period is passed. As everyone knows, the scales were revised soon after the last war before the economic condition had been stabilised. As a consequence, the scales imposed a heavy financial burden on most provinces during the Reform period, and rendered the provincial governments financially incapable of launching schemes of development. Care should, therefore, be taken not to repeat the same error.

(*iii*) Lastly, taxation would raise several problems in the period of transition.

It may be presumed that war-time taxation will have te continue for some time during the transition. As long as the war-time price-level continues, the E. P. T. and the income-tax raets may have to be continued. But then, the schemes of economic reconstruction would necessitate a good deal of additional finance, and this would raise the larger problem of

tax reform with reference to peace-time conditions. Here again, it would not do to resort to temporary expedients and make-shift arrangements. The question will have to be solved in the light of the basic principles of taxation, and, in particular, in the light of the proper distribution of the tax burden among the different sections of the community. This will raise the important problem of the incidence of taxation in India, with special reference to war-time changes. In view of its great importance, it would not be out of place to discuss the problem at some length.

To-day the subject of Incidence of Taxation is one of the least satisfactory parts of theoretical and applied Economics. The theoretical concept of 'Incidence', as distinguished from the "effects" of a tax is not yet clear. Some years ago every one would have accepted the distinction between Incidence and Effects as laid down by Seligman and the Colwyn Committee. Thus it was supposed that Incidence would cover the immediate burden of a tax, while effects would imply the whole range of consequential results which a tax would tend to bring about. It has been recently argued by writers like Dr. Black* that this distinction between incidence and effects is not at all helpful. The truth of the matter is that incidence in this sense is merely the first link in the chain of consequences which a tax produces on the individual and the community, and that this first link may often be less important from the economic point of view than the subsequent ones. It would, therefore, be a step in the right direction if the narrow conception of incidence is abandoned, and if incidence is made to imply all the effects on production and distribution which a tax produces in the short and long-periods. Something of this kind was, indeed, suggested many years ago by Dr. Cannan; and recently, this view has been set forth by Dr. Black in his *Incidence of Income Taxes.* He says:—

"The Incidence of a tax is the group of economic effects which it brings into existence. These economic effects will mainly consist of alterations of commodity prices and in the flows of commodities per unit of time; in alterations in factorial prices and in the flows of the factors of production into the production process; the economic effects (and therefore the incidence) will also consist of changes in revenue and cost schedules of firms and in changes in the distribution of wealth brought about by the tax. The theory of Incidence is concerned with all of these topics."†

* *The Incidence of Income Taxes.*
†Op. cit. pp. 123-124.

The study of Incidence in the above sense would involve immense difficulties in theoretical analysis since it would necessitate consideration of a large number of "economic variables" which are simultaneously affected by the imposition of a tax. Such an analysis with reference to any concrete tax structure would be insuperably difficult, nay, even impossible, since the effects referred to above would escape all statistical measurement. In applied Economics, therefore, statisticians have so far confined their studies to Incidence in the narrower sense, and even in this they have had to make simplifying assumptions in order to arrive at their conclusions.

The statistical study of Incidence was first attempted by Herbert (now Lord) Samuel in the course of his Presidential Address to the Royal Statistical Society in 1919*. In the course of it he examined the distribution of the tax burden in England with respect to family incomes ranging from £50 to £50,000 a year. Similar inquiries were made by the Colwyn Committee in 1927, by D. Caradog Jones, D. M. Sandral, and more recently, by G. Findley Shirras and L. Rostas in their book *The Burden of British Taxation.* These inquiries have yielded significant results with reference to the distribution of the fiscal burden among the different income-levels in U. K. In our country, however, the studies of Incidence so far attempted have been of a very rough, even crude, character. In 1926 the Taxation Inquiry Committee arrived at broad conclusion regarding the distribution of tax burden without going into statistical calculations. Other economists like Shah and Khambata, H. L. Dey, D. G. Karve and others have also made attempts to study the allocation of tax-burden. But all these inquiries have been hampered by lack of statistical data on such important aspects of economic life, as the distribution of income, the expenditure patterns of different income groups, the size of the family in the several strata of society, etc.

The most urgent need in the field of tax reform, therefore, seems to be a detailed, statistical inquiry into the distribution of tax burden—Central, Provincial and Local,—among the different productive classes and income groups. Such an inquiry will afford considerable guidance for the framing of practical tax proposals in Central and Provincial finance. In the absence of such an inquiry, the following analysis should be regarded as merely tentative and provisional.

In the pre-war situation, the general analysis of the distribution of the fiscal burden among the different productive groups made by the Taxation Inquiry Committee was broadly true.

**Journal of the Royal Statistical Society*, Vol. 82. pp. 143-182.

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Modifying the analysis a bit, it could be said that in the pre-war years :

(*i*) The tax-burden on the "poor classes" (including agricultural and industrial labour, petty farmers with an uneconomic holding, casual labourers, etc.) was heavy relatively to their income. The taxes they paid included the excise duties, certain customs duties (especially sugar and cloth), and land revenue (in the case of small farmers).

(*ii*) In the lower middle class (*e. g.* persons earning between Rs. 500 to Rs. 2000 a year), some sections were lightly taxed ; for instance the small trader, landlords, etc.

(*iii*) In the middle and upper middle sections, (say, earning between Rs. 2000 and Rs. 10,000) the class of substantial landlords escaped lightly as compared with the professional classes, higher grades of the salariat, and the merchants and industrialists. But even these classes contributed less by taxation as compared with the similar income groups in other countries.

The war period has brought about large changes in the total tax burden and, particularly, in the distribution of the burden among different classes. The most obvious change has been in respect of Direct Taxation, which has increased manifold in the course of the last five years. But along with this change, another even more important factor has been the great rise of prices which has taken place as a result of inflationary finance. As a consequence of this latter factor, the real incomes of all people have been reduced to nearly 30 p. c., but this loss has been peculiarly heavy for all those classes whose incomes have been fairly fixed by custom or statute and also those whose incomes, though variable, have responded only slightly to price changes. These sections include wage-earners in industry and agriculture (except those who are in receipt of substantial dearness allowances), fixed-salariat in Government and non-Government employment, and, to some extent, the professional personnel. The rise of prices has on the other hand immensely benefited the substantial landlords, traders, merchants, industrialists, all those classes whose incomes arise out of risk-bearing. It is true that some of these sections have been subjected to heavier taxation, (the income tax and E. P. T.), but the small traders and merchants and substantial landlords have escaped this. Fiscal justice, therefore, demands that in post-war public finance, large-scale transfers of income should take place from those classes whose fortunes have been immensely improved by the war, to those who, directly or indirectly, have borne a particularly heavy sacrifice.

In the light of the foregoing analysis, the following concrete proposals may be made :

(*a*) A fairly high level of industrial taxation will have to be maintained for some years after the war, at any rate till the prices are stabilized at a lower level. As long as there remains a lag between prices and costs, a large part of industrial profits would be of the nature of an unearned surplus and would have to be treated as " war wealth " and taxed accordingly.

(*b*) An attempt will have to be made to tax the small industrialists and businessmen who, as shown above, have escaped the war burden to a large extent. For this purpose the practicability of turn-over or sales taxes will have to be closely examined with a view, especially, to see that their burden is not shifted on to the final consumers.

(*c*) The practicability of a Capital Levy after the war will have to be considered in all its aspects. After the last war such a proposal was hotly discussed in England, and a theoretical case for it was made out by economists like Pigou and Dalton. The pros and cons of such a levy after the present war have been discussed by Professor Hicks in his *Taxation of War Wealth.* It is impossible to go into the detailed discussion of the proposal at this stage ; it contents us to observe that a special levy on all forms of accumulated property would facilitate rapid repayment of the war-debt and, at the same time, produce resources for a part of the reconstruction programme.

(*d*) The taxation of higher agricultural incomes will have to be taken up as an urgent piece of fiscal reform in all provinces.

Space does not permit us to discuss the above proposals in detail.

SOME ASPECTS OF THE TRANSITION FROM WAR TO PEACE ECONOMY

BY

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Every great war tends to bring about profound changes in the economic structures of all states. The present war which is totalitarian in character has an infinite variety of reaction

not only upon the living but also upon the generation yet unborn. No country is unaffected by this conflagration. All the available material and human resources, and all activity individual and collective in the belligerent countries must be consecrated and dedicated to the moloch of war. As shown by the warning light of history, the restoration of peace is likely to be followed by a major economic depression with all its attendant evils which can be avoided or mitigated by timely forethought and planning. There is no doubt that the period of transition presents many knotty problems. Therefore, all modern governments must prepare in advance even before the termination of hostilities and devise suitable methods so as to remove the causes of dislocation and make the transition as smooth as possible.

What are the features of war economy that create problems of transition ? The machine industry which forms the basis of the modern economic structure has been expanded to an unprecedented extent in all the warring states. The economics of war are relatively simple, because the appetite of the war machine for goods is insatiable. All considerations of immediate social welfare have to be sacrificed for political and strategic ambitions. The primary aim of war economy is to utilise all resources for the production of an endless variety of goods and services needed for the successful conduct of war. The entire economic organisation of a country struggling feverishly to harness and activate all productive forces for war-use is bound to be a fundamentally changed one. The incentive of profits which is the criterion of success for a peace economy[1] in a non-collectivist state is partly or wholly removed during the war ; and it is the preference schedule of the state itself rather than the total preference schedule of the various income groups of consumers that directs all productive processes. In war time, the intricate mechanism of production, exchange and consumption is subject to state controls of varying degrees of rigidity. The ever-growing demands of war and the consequent use to which all resources must be put have created conditions of full employment in respect of equipment required for war purposes. A diversion of serviceable resources to military purposes has been brought about by limiting civilian consumption and investment. These restrictions are either voluntary or compulsory. The government may borrow private savings, or tax them or somehow try " to prevent spendable income from accruing " by adopting price control, rent control, wage control, profit control, compulsory temporary savings and other anti-

[1]*World Economic Survey 1939-41*, p. 5.

inflationary devices.[2] As long as the war lasts, capital consumption for war purposes is bound to be on the increase. Most governments shall have to live on their capital, either by borrowing from abroad or by selling their foreign investments without making good the wear and tear and other countless deficiencies that inevitably result from the curtailment imposed on private consumption and diversion of resources from the civilian to the war sector. Therefore, the various restrictions on the one hand and the excessive stimulation of the productivity of resources on the other are the twin essentials of war economy.[3]

In the light of past experience, the nature of the general characteristics of the post-war transition period can be outlined. It is the co-existence of excess and want that will raise complicated issues in the immediate post-war period. The war economy does not silently make way for the peace pattern. The transition will be a painful and long-drawn-out process. It is not simply a matter of turning the makers and users of guns into producers of food and plough-shares.[4] In the first place, the entire existing machinery of production has to be switched on to the manufacture of goods for civilian needs with minimum wastage and friction. Secondly, the deep-seated structural maladjustments making for a ruinous depression have to be effectively counteracted.

One important change that will make itself felt immediately after the advent of peace is the shifting of a large mass of economic effort away from the services of war. Millions of men now employed in fighting forces and munition works will no longer be wanted there. The cataclysmic character of post-war demand is a dominant factor of disequilibrium. In spite of a large increase in the demand for labour as a result of resumed activity in civilian industry, there will be for a short time difficulties of adjustment between 'pegs and holes'. Certain skills and industrial plants may become redundant ; agriculture will have declined and the land will have "got out of good heart". The demand for non-durable or semi-durable consumers' goods,[5] the demand of factories for raw materials, the demand, public and private, for permanent industrial plant, the demand by industrial enterprise for new machinery and the demand for reconstructing "the jammed and fractured economic life" all over the world will impose a

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[2] & [3] *World Economic Survey*, pp. 8 & 9.

[4] Pigou, *Transition from War to Peace*, p. 11.

[5] *Report on the Transition from War to Peace Economy*, p 44 [League of Nations).

tremendous pressure on the productive resources. There will be a sudden outburst in post-war civilian demand for all classes of goods in the first phase ; and later in the second phase the demand will contract with the result that violent distortions in economic activity are bound to occur. Notwithstanding the improvement and modernisation in the ultimate technical competence of the world, every country will find itself much poorer and ill-organised in the deluge of peace. Many countries will have to experience a lack of wherewithal for buying raw materials and machinery abroad, for their fiscal position will have deteriorated to a crashing point. They may be constrained either to sacrifice their foreign assets or resort to violent exchange depreciation. The savings of private persons who consider them to be of the nature of amortization reserves against their personal needs like clothes, houses and furniture, if converted into cash soon after the war, may produce disastrous inflationary consequences, render the distribution of income unequal and restrict the chances of full employment. How far and by what stage should the government permit the scales of preferences of the public to influence production is another crucial problem. The main hindrance to post-war prosperity will be the rise of exaggerated economic nationalisms with competitive tariffs, competitive wage-reductions, competitive liquidation of foreign assets, competitive currency deflations and such other of this "beggar-my-neighbour"[6] description. Hence, a reversion of our economic system from war to peace requirements " will entail friction, loss of time and loss of income." It is a mistake to think that all these questions can be settled at the last moment. A heavy responsibility rests on governments and businessmen. They should put forth joint effort and lay down definite programmes so as to gear the productive apparatus for meeting "not almost repeat orders of the State but the infinitely miscellaneous demands of the individual."

To prevent the post-war world from moving rudderless into an unforeseeable future, a high order of statesmanship and courage are required of those responsible for shaping the destinies of mankind. The foremost task under reconstruction should be to restore confidence that is one of the first casualties in the war. "The psychological cumulation"[7] caused by waves of optimism and pessimism of businessmen contributes to swell the amplitude of industrial fluctuations in the real

[6] J. M. Keynes in *The World's Economic Crisis and the Way of Escape*, p. 74.

[7] Pigou, *Industrial Fluctuations*, pp. 244-245.

world. "When an exaggerated pessimism dies an exaggerated optimism is apt to arise from its ashes." The governments should be able to control the tendencies of an immediate post-war boom by adopting proper monetary and non-monetary devices.

In order to avert the tragedy of forced unemployment, suitable jobs must be found for all the demobilised men at the end of the war. It is the duty of the State to provide facilities of training or retraining for the displaced workers who should be immediately integrated into the peace-time economy. Such a change in very many cases need not lead to a shift of personal employment, because most of the firms, factories and engineering industries will continue to work, of course for a different purpose. A large number of houses and buildings destroyed during the war will have to be rebuilt. Railways, ships, plant and other equipment which have worn out or been damaged will have to be brought up to their former standard of efficiency. There will be a rise in the demand for restockings and export goods. In spite of this widening scope for re-employment, there will be probably quite an army of men, just thrown out of work, and seeking to be absorbed in civilian occupations. There may be surplus labour in over-crowded industries ; and in some, labour may be scarce. Such concentrations of unwanted workers should be prevented by keeping the various types and grades of labour sufficiently mobile. Above all, a highly organised system of Unemployment Insurance instituted on the lines of the Beveridge Plan may go a long way in safeguarding the interests of the disengaged and under-engaged wage earners. Every country should act up to the policy laid down by the government of England to the effect that "the question of education and training for the young whose educational careers were interrupted by the war, will not be overlooked."

No government can afford to give up the different controls that have been enforced during the war but will have to retain all those controls until normal economic and psychological conditions are re-established.[8] A solution of the problem of post-war employment is partly dependent on the complementary question of "the pent-up civilian demand." It is necessary that the consumers' purchasing power which has had to be severely limited during the war should be "unhobbled, if not unleashed". To marry productive powers to potential demand, long dammed back during the war years and to render that potential demand

[8] League of Nations' *Report of the Delegation on Economic Depressions*, p. 42.

effective are indeed delicate tasks. The demobilisation bonuses of soldiers, the savings of civilian population, the huge amortisation reserves accumulated by business firms and the launching of fresh ventures by industrialists, freed from war-prohibitions are apt to increase the volume of expenditure.[9] The method of raising the rate of interest, tried after the last war will not be an effective check. The public must be persuaded to refrain from lavish spending and to invest their savings in securities. Even drastic methods of control should be employed to discourage abnormal capital investments. The governments should implement such monetary and fiscal devices as would mitigate the incidence of taxation on risk-bearing capital. The taxes that tend to check necessary consumption as well as those that hinder peaceful transition must needs be lightened.

The deficit expenditure of governments should in the first instance be reduced to the minimum. The governments should not embark on their expansionist policies and compete with market demand "until the initial up-surge of civilian has spent itself" and the pressing work of reconstruction is seen through. The government must endeavour to weave its public work policies into "the zig-zag of consumers' demand", instead of hastily taking on hand "postponable enterprises".[10] Towards the later stages of the transition, the government may have to come forward with its projects in order to fill gaps created by a waning civilian demand and thus create "a powerful break-water against the tide of depression."

Moreover, the consumers' demand cannot be left to itself. The prices as well as quantities of consumers' goods, investment goods, and raw materials[11] should be judiciously regulated so that violent ups and downs in economic life may be minimised. These rationing, allocation and other restraints should be gradually withdrawn as the price-level and civilian consumption get more stabilised.

It is significant that, of late there has been a shifting of emphasis from abstract issues to the practical problems of the individual. A general orientation of thought in regard to the primary objectives of economic policy has come about throughout the world. All have recognised that an immutable minimum standard must be rooted into the social system. Every person must be enabled to exercise his right to work. It is obligatory for the State to ensure equal social and economic

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9 League of Nations' *Report of the Delegation on Economic Depressions*, p. 51.
10 Ibid, p. 53.
11 Ibid, pp. 60-61.

opportunities to all along with the freedom to choose one's own occupation. The government should suppress all kinds of monopolistic practices so that an equi-marginal distribution of all factors of production is secured. Production is to be regarded as a social enterprise carried out in the interests of all. The economics of consumption should take the place of the economics of production within the framework of an economic system designed to preserve individual liberty. If actual policies are to march with thoughts and promises, the problems of transition will be very much simplified.

It must be stressed that no State will succeed in finding solutions for all its transition problems by purely independent action. National and inter-national questions, apart from local peculiarities are interlocked. The nations should not " fly once again to fresh tariffs, parochial purchasing, domestic currencies and other isolationist policies, like frightened rabbits each scurrying to his own burrow ".[12] Economic policies should no longer be conditioned by fear of war or political insecurity. The future of the world depends more on the victories of peace than on the victories of war. All the problems of transition from war to peace can be satisfactorily settled only by concerted action of all powers,—big and small. The establishment of a broad-based and enduring system of general security is the first condition precedent for an all-out recovery from the ravages of war. We cannot hope for more than brief periods of prosperity, as long as the sword of Damocles hangs over the nations of the world.

The leaders of the United Nations have proclaimed their resolve to make the work of relief and reconstruction a part and parcel of their general war effort. It was stated in one of the reports to the Congress on Lend-Lease Operations that " relief and reconstruction of occupied areas will be the common responsibility of all United Nations, and must be a combined operation in the same sense as the military operations themselves. Success in restoring the countries we free will be a powerful factor in shortening the war, giving the liberated peoples their chance to share in the victory". If the idealism that actuated these utterances continues to inspire subsequent policies, the aims of full employment of resources and of higher standards of living in all countries can certainly be achieved.

What then is the position of India in the immediate post-war future ? The prospect does not seem to be over-bright. None can forget the clear conflict of interest between economi-

[12]Salter, *Recovery*, p. 302,

cally backward and politically dependent countries like India on the one hand and the industrially advanced and powerful countries like the U. K. and the U. S. A. on the other. The financial burden of the war on India is enormous. The economic controls tried so far have not been quite effective. Bretton Woods has left India " disappointed and disillusioned ". India is given the sixth place in the list of quotas to the Inter-National Monetary Fund, and is denied a permanent seat on its executive. The chance of India getting a seat on it even through election is rather doubtful. The sterling assets on which we have been counting too much seem to have only a remote prospect of attaining multi-lateral convertibility in the near future. Increasing facilities for the expansion of international trade can give us only cold comfort. Our primary objective should be to hasten the economic development of India so as to promote high levels of employment and real income without being drawn into the whirlpool of economic imperialism.

WILL INDIA FACE A SLUMP ?

AN ASPECT IN TRANSITION ECONOMY

BY

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[From war to peace—what would be the nature of India's transition economy ?

The first and the foremost question that arises is : will post-war India witness a slump ? The war has given a fillip to India's industrial activities, brought about a rise of prices, created additional purchasing power and given employment to millions of persons in the army. All this will come to an end, as it is bound to, with the termination of the war. And if after the war the present tempo of economic activity is not maintained, then India will be overtaken by a violent economic cataclysm with complete collapse of prices from which it would be long before any recovery would be possible.

To avoid slump, planning ahead for the transition period is therefore necessary. And if industries are reorganized, if the demobilized persons are given proper employment, if trade investment and public works are controlled, if agriculture is improved and effective economic controls are maintained, then India will be able to maintain the existing level of production, employment, and income, and there is no chance of her being overtaken by a slump. But if planning fails at the right moment and in the right direction, then her transition economy would be overtaken by a sheer disaster from which recovery would be difficult.]

From war to peace—What would be the nature of India's transition economy ?

The first and the foremost question that arises is : will post-war India witness a slump ? The war has given a fillip to India's industrial activities, brought about an all-round rise of prices, created additional purchasing power and given employment to two million persons in the army. All this will come to an end, as it is bound to, with the termination of the war. And if after the war the present tempo of economic activity is not maintained, then India will be overtaken by a violent economic cataclysm with complete collapse of prices from which it would be long before any recovery would be possible.

To avoid India being overtaken unawares, planning for the transition period should therefore be kept ready in advance, and given effect to when the hour of action arrives. It should be recalled that other countries have already set themselves to the task of making plans for switching off the war-time economy to a peace-time basis. In America, President Roosevelt recently made public a comprehensive report on post-war adjustment problems by Bernard Baruch and John Hancock who stressed on the necessity of " redirecting the nation's industry and manpower into pursuits of peace through advance preparation without paying the toll of economic collapse, depression and widespread unemployment". In England, the Ministry for Reconstruction is also busily engaged in formulating plans for post-war adjustment problems. In India, though late, some start has however been taken by the creation of a new Department of Planning and Development with Sir Ardeshir Dalal at its Head. What exactly is the line on which the newly created Department will work, is as yet not definitely known, but this much seems to be clear that by the creation of this Department the Government of India have at least afforded " the evidence of a frank recognition of the importance of planning in New India."

One thing should, however, be clearly emphasised. The objective and the technique of planning for transition economy is fundamentally different from those of planning on a long-range basis. Long-term planning like the ' Bombay plan ' aims at achieving a high target of national income with a capital out-lay spread over a number of years. Planning for transition, on the other hand, aims at achieving some immediate objective, and while it does not seek to raise the target of national income, it does at least try to prevent it from falling. Planning for the transition period is mostly concerned with the problem of adjustment, and it seeks to minimise, if not to completely avoid

the evil effects arising out of a dislocation from the changeover of war-time economy to a peace-time basis. It is only when the planning for transition economy is complete, that a long range view of over-all planning can receive its due share of consideration.

To come now to details—on what lines should planning for the transition period proceed? Industrial reorganization is the first thing that would require the most careful handling. It is true that the task of industrial reorganization in India will not prove so formidable as in other countries, for industrial production in India, with all its potential resources, has never been at its peak. In India production for organized industries is believed to be only 25% higher, and for unorganized groups only 50% higher, while the figures of production for other countries are indeed very much higher. Yet in the post-war years, the problem of industrial reorganization will present itself in an acute form, and will have to be squarely faced. Some of the war production factories which, after the war, will completely outgrow their usefulness will have to be altogether scratched out. Other industries which in normal times produce for civilian consumption and now produce for military requirements will have to be switched back to their original function. Some new industries which have grown up due to the exigencies of the war, or for filling up the gap caused by the fall of imports will have to be adjusted to the new order of economic organization. To rehabilitate these industries with a view to maintain the existing level of production, employment and income, careful planning is necessary. Each kind of industry will require separate decision, and the nature of the financial, technical and other facilities that will have to be provided should be carefully planned.

For proper rehabilitation of industries, a general revision of the taxation and fiscal policy of the Government would be necessary. The Excess Profit Tax, however useful as an instrument of war finance, should be abolished in the post-war years. Not to speak of undertaking extension and improvement, the E. P. T., if allowed to continue, will simply make the existence of many industries precarious. The present rate of E. P. T. leaves no margin for depreciation and obsolescence in industries, and unless properly modified, industrial rehabilitation would be a sheer impossibility. The policy of the government with regard to trade, specially the import to the country would also call forth a certain amount of revision. The recent import of consumers' goods of indiscriminate kind has only served to increase the confusion in the public mind about the

real intention of the Government about the future development of industries in the country. On the other hand, difficulties experienced by various firms for the import of machinery and capital equipments seem to act as a brake for progressive industrialisation. The Government policy in this direction should therefore be clear-cut and well-defined.

The question of the disposal of war surplus should also receive careful consideration in any scheme of transition planning. The value and the volume of the possible war surplus in India has not yet been finally ascertained, though in other countries such estimates have already been made. In any case the value of the war surplus including both capital and consumption goods is likely to be well above several hundred crores. In liquidation such huge stock of surplus goods, care should be taken to see that they do not unnecessarily depress prices, hamper production and dislocate trade channels.

But far more crucial is the question of India's sterling accumulation on which ultimately hinges the smooth transition of India's war-time economy to peace-time conditions. The smooth adjustment of industries from war to peace-time basis practically depends on the availability of the sterling accumulated in London to India's credit. It is unfortunate that much loose talk and wild guesses have been afloat over an issue which forms such a vital and integral part of the problem of post-war transition economy in India. Money accumulated in London has been secured by extreme privations of India's teeming millions, and even if a part of this accumulation is released in the immediate post-war years, India will have no difficulty in capital accumulation, and the pace of industrial progress during the transition period can be maintained with an uninterrupted tempo.

Apart from industrial reorganization, demobilization of the two million persons now employed in war services will prove an equally baffling problem. As the *Eastern Economist*, in a series of articles, has pointed out, demobilization would consist of three parts: (*a*) armed forces, (*b*) administrative services, (*c*) industrial workers and other war technicians. Some of the workers and technicians are likely to be absorbed in the rehabilitated industries which will receive impetus for meeting the civilian requirements, but yet it is unlikely that the whole of the demobilized forces can be fully reabsorbed that way. Even if the process of demobilization is carried out slowly and by stages, yet the ultimate solution would remain as far off as ever, for persons not demobilized will have to be maintained by the tax-payers' money, and as these persons will not be rendering

any useful service, this will only lead to a diminution of the real national income. The point is that they would have to be absorbed somewhere to render some productive services for the community. Plans of resettlement must therefore be kept ready. A Reconstruction fund would be necessary to finance and assist projects in which the demobilized persons would be given employment. A scheme of public works should be laid out, and "programmes should be so drawn up that they are preferably labour saving rather than capital absorbing." For this purpose, road construction, irrigation, house-building and such labour absorbing projects would be most suitable. The recent proposal of the Railway Board to spend Rs. 319 crores over a period of seven years is good so far as it goes, and may help to create additional employment, though on close scrutiny the proposal does not inspire much confidence. Much bolder plans and a more vigorous policy would be needed to tide over the difficulties of the transition period.

Any planning in India without reference to agriculture is, however, incomplete. The present war has brought to light some of the most woeful defects in the agricultural industry of our country. Improvement in the yield, increase in the cultivatable area, production of manures in the country, control of prices are some of the matters that would require almost immediate attention. Agricultural finance and marketing should also receive careful consideration. The Reserve Bank of India had made this year a surplus profit of 10 crores which had been wholly transferred to the Central Government. Last year the amount of profit was 7½ crores which had also been handed over to the Central Exchequer. As soon as the war stops, this money should be credited to the agricultural credit department of the Reserve Bank and utilized for agricultural improvement. Contrary to general expectations, some of the cottage industries in India have recently shown improvement in their general position and in spite of adverse circumstances and almost impossible hardships they have been able to maintain progress. Planning for transition must put the necessary emphasis on the supreme importance of the cottage industry in the balanced economic development of India.

We are now in a position to answer the question raised in the beginning: will India face a slump? If industries are reorganised, if the demobilized persons are given proper employment, if trade, investment and public works are controlled, if agriculture is improved and effective controls are maintained, then India will be able to maintain the existing level of production, employment and income, and there is no chance of her

being overtaken by a slump. But if planning fails at the right moment and in the right direction, her transition economy would be overtaken by a sheer disaster from which recovery would be difficult.

WAR TO PEACE ECONOMY IN INDIA

BY

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[This War has resulted in India in a great tempo of production and rise in employment. Its productive activity is differently developed in India, there is every likelihood of production and employment falling down after the War unless steps are taken ; and all steps should be taken to retain them.

But there are many disruptive forces against which we must guard ourselves. Three such are

(*a*) The demand for agricultural produce falling down by the conquest of Burma and the lack of purchasing power after demobilisation.

(*b*) Our madness for mechaniration resulting in a sudden transition of employment.

(*c*) The tendency towards any contraction of money after the War causing deflation.

These must be avoided and full all-round development aimed at. But there are two limiting factors

(*a*) The international competition for our own internal market.

(*b*) The International Monetary Reforms restricting our currency manipulation thus facilitating more of international trade than internal trade.

In this problem of India is different from that of England which has to find an external market. We have to cultivate our own internal market. For this we have to adopt a policy of what I call 'Cooperative Self-sufficiency' which gets all the advantages of Free trade based on the comparative costs and Economic Nationalism based on the full employment, without any of these defects. One-sided development of India—there are many signs of it—should be avoided.]

Though not to the desired extent and in the desired manner, still this War has, as any war would, brought about many changes in our economy. The tempo of production has increased both in agriculture and industry, employment has increased both in services and industries, and money, both legal tender and credit money, in circulation has increased. Above all,—a very

significant fact for the student of Economics—for the first time in recent History India, has been subjected to the test of self-sufficiency. Not only that India has been asked to produce everything she wants for herself but also she has been asked to manufacture and supply to the Allies on a grand scale. How far India has sacrificed and how far India has been able to withstand the test of self-reliance, is a matter of opinion and dispute; but one fact remains certain that India has definitely shown signs of her real capacity to be self-sufficient. This really is an encouraging factor.

This change in our economy and the rise in the tempo of production are in many respects different from those of other countries more directly involved in the War or more luckily situated politically. Two such differences are important to the student of Economics.

(*a*) The rise in production is not very high and is merely to satisfy war-time needs so that the demand for the goods produced would vanish the moment the war is over.

(*b*) This small rise even is mostly due to our 'paper economy' and is really at a great expense of real resources in men and machinery. (Thus there is no real and natural development of our industries and the exploitation of our natural resources that would lead to our increased productive activity after the war. Much of the increased wealth is war wealth, and while we are accumulating so much in terms of money, (except probably in the case of sterling resources, if they could be cashed by us after this war) we are poorer today in real resources; our land is overdrawn and exhausted, our machinery is overworked and worn out and our men are starved and emaciated.)

Thus while in other countries a transition from the war to peace economy would be easy, it is going to be difficult in India, as here we have created new employment for our people by recruiting nearly two million people for the army and so many others for the other war departments from the ranks of the unemployed, whereas in a highly industrialised country like England the new recruitment for the war was made from the people who were already employed in other trades. In countries like England the transition from war to peace would merely mean a switching over in the production and taking the demobilised soldiers back to the industries. But in India it means almost finding new resources, new industries and new occupations for our people. For example, Plane production has increased tremendously in the U. S. A. on account of the War, but the Government of the U. S. A. are already making frantic

attempts to introduce world aviation on a large scale to find markets for the planes in peace times. So also in England, after the war all the labourers that have been absorbed, say, from the Cotton industry for the War would be reabsorbed into the same, provided they are sure of their markets. In India no such industry on a large scale is newly started and the existing industry is so very much worn out that, while it is a problem of finding new markets for England and the U. S. A., it is a question of finding new industries and new machinery for India.

Though the increase in our productive activity is not much, still every effort should be made by us to retain the changes and maintain both our tempo of production and the new markets created for us by the war both inside India and outside.

But there will be many disruptive forces having a sudden effect on our economy, causing so much difficulty unless we take special steps to safeguard our interests. The first such disruptive force is in matters of agriculture. Our 'Grow more Food' campaign has not had many spectacular results. Still there has been some improvement in our acreage. Some new irrigational schemes have been executed and some new lands have been brought under cultivation. It means that land that must have been considered to be below the margin before, has now been utilised because of the fall in imports and the rise in prices. What will happen to this new land, say, when Burma is reconquered and the new money is withdrawn from the hands of that class of people in the army to whom money is newly given on account of the war, which enabled them to increase their demand for rice etc. which they were not taking before? Again, under the Post-war Reconstruction schemes we are planning to increase land for cultivation of food crops. How could we be in a position to maintain these 'infra-marginal' lands after the war? Some sort of 'protection' seems to be absolutely essential in the case of agriculture also.

Yet another disruptive force is our madness for mechanisation. Plans are prepared with a view to absorb the various technicians and army people etc. after demobilisation. But what would be the effect? For example take the question of army trucks. Roads are to be laid and hundreds of motor trucks are to be turned for civilian use. What will these trucks carry unless the tempo of production is retained? Again, what will happen to the other means of transport now in existence in India, specially the bullock cart, the only 'paying friend' of the

Indian agriculturist ? Indian agriculture with the animal driven plough and the bullock cart go together in our village Economy and any attempt to separate them would result in agriculture becoming more unremunerative, unless another paying avocation is shown both to the man and the animal. There is also a view that Agriculture is best paying when each man cultivates an optimum economic holding and that animal energy is the cheapest and more so in a country where population of both men and animals is the densest. Again attempts are being made to absorb all the war technicians into various cottage industries by supplying them with cheap electric energy. What will happen to the professional caste workers of India in the various trades like the blacksmith etc.? What we want is greater employment but not a shift of employment from one grade to another and at the expense of one section to another, unless that exchange is proved to be more economical and is brought about in an orderly manner according to a pre-prepared plan. India has already paid heavily for such a sudden transition when the East India Company introduced their cheap goods and marred our village self-sufficiency, and we are still suffering from those evil effects. I am afraid that the same fate is awaiting our simple economy unless every care is taken on our part in our Post-war Reconstruction Planning not to disturb the existing occupational cadres unless more remunerative alternative is provided.

The third and the most disturbing element is the inflated condition of our currency and the present state of our Sterling Balances together with the law connecting them. We have now about nine hundred crores of currency in circulation and much more credit is available in the country. In terms of money, many people are richer now ; in terms of real resources India as a whole, is poorer than before. For the first time people whose ordinary 'wants' were not satisfied before, find themselves in possession of purchasing power. This amount is not active now as there are no civilian goods available now in large quantities. But when once the war is over the war-time restrictions are removed and the market is once again flooded with civilian goods, people would rush to buy them. So by that time Indian industry should be in a position to produce these civilian goods. But I do not think India would be in a position to produce them as our real resources in machinery are really exhausted and it would take some time before our Post-war Reconstruction schemes to be put into execution. If this be the case 'protective' steps must be taken to safeguard our markets against flooding with foreign goods. There is an inherent danger, if the market is so flooded. Against such

purchases our sterling resources might be reduced thus resulting in our incapacity to get machinery and resulting in the withdrawal of currency from circulation in India. This latter action might lead to deflation in our country and the whole thing would abruptly nip all our Post-war Reconstruction plans in the bud. On the other hand if we buy our own goods in the market, our foreign assets would be there to give us capital goods and also our currency would not be withdrawn.

I am not a believer in the orthodox currency principles. I do not want a contraction of our currency amount. I do not deny that there is no inflation now. But I do not want that the so-called 'normal' condition to be brought about by any contraction of our currency now in circulation. 'Normal' could be brought about, if it should be at all, by the expansion of 'goods' also; and I want this method to be adopted. Every care must be taken to see that no notes are unnecessarily cancelled against the disappearance of our Sterling Balances on any plea.

The reason is this. In the post-war era we expect our production to be great and trade brisk and if in that period we have a policy of deflation, the whole purpose of reconstruction would be defeated. Again, the more money we have in circulation, productive resources being in a position to expand accordingly, the more would be the fillip to industries. While every trade transaction is ultimately one of barter, money being a perpetual purchasing power money transactions never end whereas barter transaction ends in itself. Money represents the endless nature of human demand. So the more we have of money the better for us, as we can then have more of perpetual demand.

Let us not think of deliberately going back to anything like the pre-war price level. I do realise that there is a school of thought that tells us that price level is an international affair settled by international forces. But I would like India to adjust her price level in a way that would mean expansion of industrial activity and active note circulation. For instance a gradual fall in the price level could be brought about by the expansion of our industrial output.

There is, again, no special reason why any pre-war price level be aimed at. While realising that there is nothing like a 'normal' it should be specially noted that the war has lasted long enough to adjust our costs of production to the new price level. Only in the case of the salaried classes there is some adjustment still to be made and this could be easily rectified.

Any attempt at deflation and any consequent unemployment and hardship would cast such a gloom in the minds of the people who are expecting a millennium in the post-war period, that there would be a terrible psychological setback from which we could never recover in the nearest future. Hence I plead, recognising that some adjustment of price level is necessary, that no attempt should be made deliberately by us either to reduce the price level or to contract the circulating medium to any *undue* extent and that under any conditions this degree of employment and this tempo of production should be maintained by us in the post-war era.

There are two dangers that threaten our capacity to do so. One is international competition for our market and the other is the International Monetary Reforms under contemplation. We are familiar with the former and we know how to ward it off, but we have not yet realised the inherent danger of the latter. This is not the place to explain the danger here in detail but the gist is this. Any International Currency understanding would somehow gradually degenerate into a common world standard restricting our capacity at currency manipulation according to needs and thus facilitating more international trade and stability than internal trade. Now a common standard between, equally developed countries is understandable and may be definitely good, but there are no two countries in the world which could be called equal. A common standard between any two unequal countries specially a developed industrial country like England and an undeveloped agricultural country like India is like tying a bullock and a horse together to the same cart to the utter exhaustion of the slow animal. A common standard makes countries to expand together retaining the initial disparity forever.

Again a common standard or any other international understanding about the manipulation of currencies according to an agreed formula which restricts our right to adjust currency to our internal needs, is no doubt good for facilitating foreign trade but it is extremely harmful to a country like India which has a large internal market which alone could absorb all her produce. In this respect once again our problem is different from that of England which has to seek a large volume of export trade to retain her present standard of life.

Here again we in India should realise this simple truth that there is nothing special in international trade, and that internal trade is equally good, if not more, for the development of our resources. By an all-round development and well-balanced economy between agriculture, industry and services, India

can be self-sufficient. I am not teaching the strict doctrine of autarchy. But I want us to realise the uses and abuses of international trade which is free. International trade depends for its virtue on the theory of Division of Labour and Comparative Costs and in its working actually it gives us a gain to exchange but would result in specialisation and contraction of production to suit the foreign demand. In other words, what we should and could produce, and the extent of production of any commodity, these matters are determined in 'free' trade on what the foreigners demand. The only use of foreign trade is that it enables us to import certain raw materials and chemicals that are essential for modern technique of production and which are not available, within the country. Thus I advocate what I call the policy of 'Co-operative Self-sufficiency' which implies that we produce as many commodities and as much as possible under protection, if necessary, and exchange our produce with others in international trade so as to get all those which give us the advantage of Co-operative Costs. In other words, we do not allow imports to determine our volume of production.

But already there are schemes under preparation whereby India is going to be assigned the role of a great producer of agricultural goods in this World Economy. The Government of India's great enthusiasm for irrigational schemes and hydro-electric schemes for cottage industries, the recent Plan published by the Bombay Government, all these indicate the way in which the wind is blowing. By producing too much of agricultural produce and raw materials which we cannot absorb internally, we would once again be at the mercy of the industrial countries, especially Britain, to buy our things and give us industrial goods in return that kill our industries. I want to warn India against this danger. India should have an all-round development in agriculture and industries and should depend on neither autarchy nor free international trade based on a world division of labour, but on the principle of 'co-operative self-sufficiency' which gives us the advantages of both the former without their odium and defects.

SHADOWS OF THE PEACE

BY

GYAN CHAND

In every country of the world, transition from war to peace —from this war to the peace which the people are hoping and longing for—would raise short and long-term problems. The two are closely inter-connected, for the latter cannot but impinge themselves on the way the short-term problems are approached and handled and the attempted solution of the former—*i.e.* of the short-term problems—will not only indicate the general attitude of the men in power but also limit the extent to which the long-term problems will be solved in the right spirit and by right methods. There are, of course, imponderables arising from the inwardness of the existing situation and its being pregnant with unknown possibilities which must remain an incalculable factor in all speculations and plans. These will call for continuous and involuntary re-adjustments and introduce an unpredictable zigzag of twists and turns in the affairs of nations. The problems of transition of what may turn out to be a Seven Years' War with a range and intensity without any precedent are going to be not only incredibly complicated but also involve such stress and strain as to make it almost impossible to forecast the course of events or make even blue-prints of any practical utility.

The above view is not an argument for drift or 'wait and see' frame of mind. The immediate future has to be planned for and the best that is possible has to be done to provide for it or against such dangers and difficulties as can be discerned if not clearly defined and delineated. It is necessary to fix objectives in general terms and state the line of action proposed to realize them. But so much will depend upon the balance of powers in national and international spheres and in many cases it is extremely difficult to foretell their relative strength that it is not possible to state with any precision the line that can be adopted to meet a rapidly changing and developing situation. It is almost certain that after the war forces now driven underground or held in check will be unleashed. It is not, however, certain how far these forces will have the cohesion necessary for effective action and be successful in overcoming opposition which they are sure to meet. The vested interests will again hark back, as after the last war, to 'normalcy' and will seek to hold back the upsurge of new forces from the vantage ground of the position based upon prescriptive rights and by the use of

strategems including free impressment of high-sounding phrases with popular appeal as a mask for their real designs and of course of force—naked and unabashed—if their weapons of 'peace' cannot protect them against the forces of change.

These considerations have a bearing more on long-term than on short-term point-of-view which may be taken to be more relevant for the purpose of transition from war to peace. But as stated above, we will find ourselves confronted with a situation in which time as a factor in the delimitation of the immediate and ultimate problems will not give us a clear lead. The old norms having become obsolete in most cases 'normalcy' can be no guide to action in the post-war set-up. Attempt after the last war to reconstruct the world economy on the pattern of pre-1914 basis ended in complete breakdown because the authors of the peace settlement and the makers of national policies lost sight of the fundamental changes which the last war had made inevitable ; and their action being based upon outworn premises proved utterly inept and inadequate. The present war is, it is obvious, even more truly revolutionary than the last one and makes the old assumptions, social and economic, the more unsuitable for framing policies and their execution. It is quite clear that there can be no return to the past and any attempts to resuscitate it will only lead not to regression but confusion in policy and practice and create internal stresses of great intensity.

Normalcy has, therefore, to be ruled out as a key to the immediate future. The first essential everywhere will, of course, be the necessity of dealing with specific problems which may arise in various countries—the problems which in their imperious urgency would have to be tackled and solved first. The nature of these problems will vary from country to country and each country will have to choose and follow its own line ; and in a number of countries international assistance on a large scale would be urgently called for. The problems of housing, malnutrition, epidemics will naturally have priority and functional organization covering areas much larger than individual states will have to be set to work to deal with them, and the division of U. N. R. A. into European and Pacific zones is an advance pointer of what will have to be done on a much greater degree for the re-organization of the work of immediate relief. The work of these regional units will not only be the most efficacious way of dealing with the urgent immediate problems but provide experience for those who believe that these functional organizations are the most hopeful line of development for dealing with long-term problems of international co-operation. But the

composition of those ad-hoc bodies, which will have to work with and through national agencies, will raise issues in which the future will have to be anticipated or forestalled according to the point of view of the nations concerned. This problem has, it is known, already arisen in Italy, France, Greece, Bulgaria, Rumania and is bound to arise in other countries as well. It has caused complications owing to the diverse views of the Allied Powers and the provisional settlement of the problem been determined by shifts in the centre of gravity and by fears and hopes of the various elements among the people of these countries and of the Three Great Powers. The problem will, it is known, attain much greater pitch of intensity in Germany and there, as in other countries, Anglo-Americans on the one hand and Russians on the other seem to have agreed to the separation of the zones of influence. As a temporary expedient this may work, but these zonal divisions based as they would be, upon interests of the Powers and not upon the needs of the people are bound to cause serious difficulties in the end and likely to defeat their own ends. The Relief Authorities, national and international, will have an important—may be decisive—voice in the shaping of the things to come and hence even at the initial stages the eventual struggle for power will cast its shadows before and the early manoeuvres and alignment of forces indicate the direction in which things are moving.

These shadows will lengthen and deepen as relief activities are followed by those of rehabilitation and recovery. The relief problems will not be important in countries like the U. S. A., the Dominions and Great Britain. Having been spared the actual rake of the war, these countries will be mainly concerned with the problem of demobilization, military and economic—the problems of transfer from the arts of war to the arts of peace. In these countries forces are at work which seek to put an end to war-time controls at the earliest possible dates. Their intention is clear *i. e.* freedom for private enterprise to exploit the post-war situation to the full. But in spite of all the pull that they have, it is almost impossible that they should succeed. Hitler has done the scrambling in Europe with such disastrous thoroughness and Japan's work in the Far East has been almost as complete that it is certain that the world is sure to be short of supply of the most essential goods for good many years after the war ; and this shortage combined with that of tonnage and exchange will make continuance of controls inevitable even in the countries which have suffered least from the war. The reasons will be reinforced by the necessity of regulating the demand created by the release of the dammed up savings and amortization funds and of course by the existence of unsatisfied

wants, both for non-durable and durable goods. In the liberated countries and countries like Russia and China, in which the war has caused large-scale destruction, priorities—priorities in the allocation of productive resources and use of consumption goods—will be clearly and inescapably indicated by the war destruction itself ; and apart from Russia, in which controls exist and will of course continue, the other countries will find it impossible to evade the necessity of husbanding their limited resources to the utmost for repairing grievous injuries and finding the means for saving the people from the effects of a prolonged struggle against starvation and death.

In all countries controls over production trade, exchange and consumption are, it is clear, unavoidable and their extension will have to be accepted even by the ardent advocates of private enterprize. But the spirit in which these controls will work and the purpose which they will fulfil will largely depend upon the disposition and interests of those in whom their controls are vested or who are charged with the duty of administering them. The war-time controls in most cases have been in the hands of the men whose interests and affiliations made it impossible for them to put the public interest before and above the interest of their class and, within the limitations set by the over-riding necessity of winning the war, their solicitude for their class interests has remained undiminished and made war effort much less than the total effort that it could and should have been. If these men continue to administer the post-war controls as in a number of important countries, as they most likely will, the controls will be worked to repress the tendency to admit the paramountcy of the interests of the community and use them as means for laying the foundations of a new order in the real sense of the word. In the ravaged countries of Europe the vested interests have weakened their position considerably by their having become willing tools of Nazis and the outraged conscience of the people will render it difficult for them to re-instate their supremacy and use post-war controls for their own sectional ends. The Anglo-American assistance would, it is clear, be available to them for retrieving their position, but it is also clear that Darlanism as a policy of salvaging the post-war Europe is, owing to the strength of the resistance movements, in eclipse, and though the possibility of its come-back cannot be ruled out, the omens at present are not in its favour.

The rehabilitation phase will become an occasion for struggle for power because in practice it would be impossible to distinguish it from the phase of reconstruction. Rehabilitation, where physi-

cal destruction has taken place, would of course be reconstruction and the manner and methods of achieving it would raise the fundamental issues of social ends and means. But even in other cases the line between rehabilitation and construction will be very faint indeed and the questions of social relations, residence of power and the right of direction of economic forces will be implicit in all proposals and become explicit as soon as concrete solutions are proposed for specific problems. Transition from war to peace without any conception of the peace to be established and worked for can have little or no meaning. The phrases like four freedoms, march of the common man, equality of nations etc. are heavily charged with emotions and are being used as stimulants during the war and will serve as lightning conductors after it, but they are only artifices for concealing or at best putting off decisions and are of little, if any, use for winning the peace which of course is another phase for carrying the people of the world safely through the post-war dangers to a position which may at least partly justify the anguish, sacrifice and suffering which the world has under gone and is still going through.

No apology is needed for stressing this consideration instead of dealing with subjects like food supply, inflation, exchange and price control, public work and employment in this short paper. These problems will be there, but if we are not to be lost in the trees we have to bear in mind that solution of all these and other problems turns upon the question of contest between the forces of reaction and progress ; and this is pre-eminently a relevant consideration even from the limited standpoint of rational study of behaviour for the distribution of scarce means among competing ends. Without assessing the relative strength of these forces and devising measures by which the success of progressive forces may be ensured beyond doubt, no transition worth speaking of is possible *i. e.*—transition with a purpose to a peace which can give hope and confidence to the stricken mankind. There are unmistakable indications that the forces of reaction are very keenly alive to the point at issue and are mustering strong to hold what they have and ask for more. Their strategy is clear. They are prepared to subscribe to all the lofty and noble ideals which are the stock-in-trade of the leaders of the United Nations. They want to steal the thunder of their opponents but have no intention of yielding any ground. They want controls but in their hands and for their benefit, and they will be good enough to call it self-government in industry. They are all Guild Socialists of a sort and that sort can only mean more power in fewer hands. They want to be given public authority for private ends and

with generous measure of financial assistance from the State. In all the three stages of change-over from war—relief, rehabilitation and reconstruction—they are out to manoeuvre for position and greater power; and if they can have their way, we will have transition from war not to peace but to a very uneasy world without any chance of a new and higher equilibrium being attained or maintained. The cardinal problem of transition is to see that these powerful interests do not have their way. The economists cannot do anything to bar their way or counter their moves. But they have to take them into account and discuss the problem of transition from this point of view. To say that economists *quo* economists are not concerned with this aspect of the matter really does not make any sense. It amounts to denial of the revolutionary character of the war from which transition has to be made and of the premises on which any peace worth having must be based.

This consideration has also important bearing on the problems of transition in this country. The problem of relief is there, but when the Allied armies are withdrawn it will become much easier. Internal production of India—of food and other consumption goods—would be sufficient for preventing distress once military demands on our limited resources are ended. Food will have to be imported and that in itself will not be a serious problem if import and export controls are maintained. During the war malnutrition has been greater and on a larger scale than before and the fact that distress has been more acute, in parts like Bengal, Behar and Malabar, shows how population pressure has begun to tell with great rigour. If another two years of war are in store for us, the vital reserves of a large section of our people will be low and their liability to epidemic will make relief organization necessary. But this will be a more acute manifestation of our chronic ills and in itself will not raise any fresh problems. The problem of economic demobilization *i. e.* conversion of war industries for production of goods of ordinary consumption will also not be major problem. Apart from the new ordnance factories, whatever development of industry has taken place need not raise any serious problems of transition. The war has been really a period of retarded development for this country and there will really be no problem of conversion or reconversion of industries on any considerable scale in India. The problem of military demobilization will have importance only because two million agriculturists have been given experience and a taste of high standard of living which will make their return to their main pre-war occupations—*i. e.* agriculture—at a subsistence or even below subsistence-level very irksome to the demobilized soldiers.

The problem will have features of its own and land settlement schemes or reservations of civil post for them will be no solution of the problem. The role which these men will play after the war remains to be seen. The attempt to use them as spear-head of reaction probably will be made but it is not likely to succeed. The problem of these men will be a part of the social discontent created by the war and its solution will be a part of the general economic problem of the country.

The problem of foreign trade will be important but its solution will depend upon international factors and so far its regulation is made a part of the general economic policy of the country. Its solution will depend upon the ideas which the latter expresses or seeks to realise. But the real post-war period of transition will not be the problem of substitution of peace economy for war economy but the problem of making a supreme effort for releasing forces which can end want, its prime cause, exploitation with utter disregard for human values and its natural results—dire misery and degradation of life. The difference in our case is that the war has left us with a sense of grievous frustration and while other countries have suffered and built up resistance movements which are a challenge and may become a power, we have borne enormous sufferings in silence without compensation of moral re-birth. Big businesses having done well out of the war expect to do better out of peace. Their interests and therefore allegiance are divided. Nationalism, they know, is good business for them, but they know too that nationalism is weak and they any way cannot stake anything on it. They, like their counterparts everywhere, are eager to swear by the common man and are willing to do everything for him. But they want to be the trustees of his future and are convinced that the Gandhian social philosophy is our way—the Indian way—of serving the community for it confirms them in their present position and does not question their right to make all decisions and have all power. In the meanwhile they are putting forward plans bargaining counters, know the wisdom of striking deals and are ready to collaborate for a consideration and as junior partners. They are casting their net wide, starting new companies, covering a wide range of different lines, appointing themselves as managing agents and learning to master the technique of manufacturing everything—including public opinion through syndicated press. It is the same bid for power and can only be countered if the forces strong enough to tame power and harness it for the good of all can be brought into being. Outlook of this country is dark in any case owing to the insecurity of our political feature. But the causes

which create this political insecurity also make the Januslike attitude of Big-Business a practical necessity. Transition from the dismal present to any future worth working for—from war to peace—is not a matter of working out schemes of demobilization, conversion of industries or regulation of trade. These problems are, relatively speaking, secondary. The real question is again the question of balance of power and the present prospect is that our transition would mean elegantly camouflaged plans for not disturbing the Stalin-quo materially.

The war being a crisis in economic and social relations is throwing into bold relief the alignment of forces, and the hope of solving the problems of transition from the war to peace is the problem of *realignment of these forces*. In India realignment is going to be more difficult than in most other countries. But in spite of the situation being very fluid everywhere the chances of the re-distribution of power in favour of the common man are elsewhere even and there is some slight reason for hope that prescriptive rights will not have it all their own way. In India the reactionary forces being in the saddle, the position is less hopeful, but we are, to use Wilkie's phrase, living in our world and it is possible that even in this country the transition of war to peace may bring us into line with march of events all over the world, *i.e.* it may become a creative phase of one economic life and release forces which will in earnest aim at raising the standard of living of our people in the real sense, their standard of life.

TRANSITION FROM WAR TO PEACE ECONOMY

BY

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A poet has said: In days of difficulty, plan wisely and well, for this alchemy of faith transmutes poverty into power.

There were nations which prepared for war long before it was declared; there were nations that prepared for war under warphobia; there were nations that prepared for war while it was on. More than war, the impending peace requires preparation and planning. There may have been reasons for being caught napping by the war, but there can be no excuse for remaining unprepared for peace. Just as the peace economy had to be

switched on to war economy due to the pressure of circumstances, the war economy will need to be switched back to peace economy. There is bound to be a period of transition from war to peace and if the issues of transition are faced with foresight, wisdom and boldness the consequent jerks and serious disequilibria to the economic system on the termination of the war may be considerably reduced if not altogether avoided. The problems of transition are domestic and international and the former at several points may dovetail into the latter. But each nation is primarily concerned with a smooth change-over from the war to peace footing of her own country, though contacts for international collaboration should be welcomed by all nations.

The war has led to the discovery (which may well be called a mare's nest) that employment is man made. If all men and women can find work to do in a war when the object is destruction, why can employment be not found for them when they desire to work to satisfy their wants? If labour can find full employment while the average standard of living is being pulled down, can full employment be not offered for raising the standard of living ? When the war is over people are not going to put up with an economic system under which they are denied the right to work and make a living when they are anxious to work. The sop of unemployment insurance and doles would not do because no self-respecting person wants to be a parasite on his community when willing and capable of useful activity.

A second discovery of the war is that the yawning disparity in the standards of living of people in different nations is a menace to world-peace and sincere international collaboration. There has been accelerated economic development in all nations involved in this war. The expansion of the metal, engineering, machine tool and chemical industries during the war in industrially backward countries has prepared a suitable foundation on which to raise industrial super-structure. This economic development has revealed national potentialities and stirred ambitions. The leading industrial countries have to accept this new situation as a fait accompli and adjust production in their countries accordingly. International commercial policies must not run to counter to this new phase of national economic growth.

A facile approch (though a blind one) to the problems of transition would be to imitate the economic policies pursued on the close of the last world war. The first concern of governments on the termination of the last war was as it will be after this war

to help the demobilised men back into employment. Their next after the last war was as it will be after the present war to permit civilian wants to be satisfied to a greater extent than was possible during the war. If these two objectives are pursued by the rule of thumb method the result may be less unemployment during the period of transition when demobilization is going on, but more unemployment and of an accentuated type subsequently. After the last world war, writes the League of Nations Report (1943) on the 'Transition from War to Peace Economy,' the period of demobilization unemployment, in for instance the United States and the United Kingdom, only lasted for a few months. There was practically full employment in the United States by the summer and in the United Kingdom by the autumn of 1919. But the real difficulty in both cases was to avoid a price boom and subsequent collapse and to avoid the inevitable jerkiness of post-war demand from accentuating this collapse.

An important problem of transition resulting from the present war would be how to prevent the rise of a runaway price boom created by the attempt to avoid the depressing effect of demobilization if the controlled spending power of individuals is suddenly unleashed. The obvious method would be to release control of consumer's demand and purchasing power gradually. Unless checked by proper publicity and education there is likelihood of persons returning from theatres of war and in possession of money indulge in lavish expenditure. They should be persuaded to treat their 'pools of capital' as nest eggs which would stand them in good stead against unemployment and other financial risks of life. These facts reinforce the necessity of maintaining a judiciously relaxing control over private expenditure during the period of transition.

The war-time standard of living in which variety of consumption has been sufficiently restricted will have to be maintained for some time even after the war to enable war-time production machinery to adjust itself to peace-time production. But there is no question of retaining obsolete and worn out machinery. This must go to the scrap-heap. A wise taxation policy of industries pursued during the war would facilitate the solution of the problem of 'obsolescence' in industrial machineries. Similarly taxation policy by giving relief from taxation could encourage industrial research and help the modernization of industries.

Similarly public expenditure *i.e.* expenditure on public works will have to be controlled and so regulated that it makes its influence felt after the first upsurge of individual civilian

demand has exhausted itself. If public expenditure is ill-timed it may accentuate the price boom as well as consequent depression.

During the present war the United Kingdom has successfully followed a cheap money policy and the rate of interest has been kept low. One of the factors responsible for low rate of interest is the elimination of private competition against government competition for money, although plentiful money supply created by the government also played its part. The rate of interest must not be allowed to rise abruptly during 'the period of transition' (either as a result of lifting of control over capital issues or contracting supply of money or liberation of private demand for capital) and check the process of expansion of peace-time economy.

The cessation of war is bound to transfer so many things from the category of wealth to the list of wastes. Ammunition and mechanized war equipment would cease to be wealth as soon as peace is declared. Similarly certain types of skill would cease to be an asset that they were for prosecuting war work. A very serious problem of transition would be how to avoid this waste of human skill. A suitable programme of training started would not only save this huge wastage in skill, but would also be able to get ready skill for peace-time production in shorter time than would otherwise be possible if raw hands had to be trained.

The White Paper on Employment Policy in Britain published by the British Government rightly emphasises the problems of transition from war to peace. Unless these problems are well managed, the longer term policy in years subsequent to the period of transition will become much more difficult. "If the price structure is distorted by inflation there will inevitably be painful adjustments, which no policy, however well conceived, will be able to prevent. Similarly, if the pressure of immediate demand is allowed to swell some of the construction and consumer's capital industries (much as building and furniture) to a size larger than the permanent demand for their products would justify, nothing could prevent unemployment when the first peak of demand had been met." The policies advocated in the White Paper are planned demobilization, maintenance during the transition period of the apparatus of control, rationing of consumer's goods and the adoption of a system of priority in which exports come first, civilian necessities next, and industrial equipment last.

Whether the transition from war to peace in India would be smooth or jolting it is difficult to say. But one assuring

thing is that the Government of India started paying attention to post-war problems—immediate and distant—when it formed and convened a post-war Reconstruction Committee on the 23rd of June, 1941. Four sub-committees *viz.* 1. Labour and Demobilization, 2. Disposals and Contracts, 3. Public Works and Government Purchases, 4. Trade, International Trade Policy and Agricultural Development were also set up. The central machinery for post-war planning now includes the Reconstruction Committee of the Viceroy's Executive Council, the General Policy Committee, seven Policy Committees and the Consultative Committee of Economists. The National Planning and Post-war Reconstruction Department which started functioning from the 1st of August, 1944, is expected to co-ordinate the plans of the provincial and central governments. It should be possible for the Post-war Reconstruction Department to view the problems of transition and post-transition as a whole and not as truncated units and also bring a shockless transition from war to peace.

TRANSPORT IN TRANSITION

BY

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The impact of the present war on Indian Transport is of a trying nature. But the post-war days are likely to be more problematic. To win the war is perhaps more difficult than to woo the peace. A transitory plan is of a far-reaching significance for transport which emerges from the unplanned chaos of the present day.

The tale of transport is dissimilar to that of our war-time industry in general. Industry has progressed even slightly at the aegis of war ; but transport has borne the brunt and is sapped of its strength. It is put to an incalculable self-denying sacrifice, physically and to a certain extent financially. Apart from the inflexibility which marked transport capacity throughout, positive deterioration has occurred all round. The progressive cancellation of railway services indicates that service is literally squeezed out of railways. The rolling stock programme of the Indian Railways included an average annual addition of 14 and 22 locos, 2,373 and 944 wagons and 352 and 302 carriages

between 1935-39, B. G. and M. G. respectively. These figures bear wide contrast to the following war-time additions. The rise in railway service during the period is also indicated alongside these figures, to give a total impression.

ADDITIONS OF ROLLING STOCK[1].

	1939—40		40—41		41—42	
	B. G.	M. G.	B. G.	M. G.	B. G.	M. G.
Loocs ...	23	22	9	10	8	...
Carriages ...	326	277	383	226	244	78
Wagons ...	3,495	535	1,790	298	130	93
Passenger miles (mills.) ...		18,622		19,222		21,298
Vehicle miles		1,639		1,675		1,737
Net ton miles		23,493		24,559		27,351
Wagon miles		2,026		3,014		3,314

VALUE OF RAILWAY MATERIALS PURCHASED[2].

(Bridge work and parts, Engineering plants, workshop machinery, permanent way material and track tools, rolling stock, Building materials, Stores hardware, and Electric and train and Loco lighting plants etc.)

	Rs. (lakhs.)
38—39	16,80
39—40	17,65
40—41	17,89
41—42	15,60

This table shows how railway maintenance has suffered physically and to a certain extent in financial terms too.

The railway record of repairs is likewise miserable. The Railway Reports specifically state that "the number of wagons under or awaiting repairs was reduced during the busy season

[1] & [2] Tables are compiled with the aid of statistics contained in the *Railway Administration Reports.*

months by extending the date of overhaul where this could be done consistently with safety" ; "that there was less expenditure on works due to a shortage of materials" ; "that three large railway workshops were handed over complete for munitions production" ; and that "the railways had to supply a considerable mileage of track for shipment overseas for Defence purposes and although the major portion came from railways' stores and reserves, 7 branch lines were dismantled and one branch was in the process of dismantling at the end of the year."[1] There is a host of other factual data which strikes a staggering note of railway wear and tear. The frequent cases of accidents, delays and slowed speeds and the inevitable discomfort in travel amply substantiate the limit of breakdown railways have almost reached. It must not be overlooked that railway depreciation and deterioration is far more serious during this war than during the last one, since the railway plant is now much older and in some cases more urgently in need of radical improvement.

Roads are in no better condition. War has inevitably magnified the helplessness of road transport at the hands of the authorities. The Local Boards, whose revenues are fairly inelastic, are unable to cope with the increased repairs necessitated by an unprecedented rise in traffic. The occasional increases in Government grants have not given them needed relief. The dearth of necessary road building equipment and materials, the scarcity of wagon space for their carriage and the abnormal rise in the cost of materials and labour have resulted in a worn out road bed throughout. The recent Conference of Chief Engineers of Provinces and States not only recognised this but went a step further to estimate the war-time arrears in construction at 450 crores of rupees and in Maintenance at Rs. 16 crores.[2] It was rightly observed by them that "the restoration of roads which had suffered owing to war conditions should receive first consideration in any post-war programme."[3]

The above analysis is of clear purport. It indicates unequivocally that Transport emerges from the war as worn-out machine. It is not any new construction that we should attempt at but only repairing pure and simple. Transport rehabilitation is as urgent in the immediate post-war period, as it is perhaps difficult too. It should be the first step in the transitory policy.

[1] *Railway Administration Reports*, 1940-41.

[2 & 3] *Post-War Road Development in India*—Proceedings of the Conference of Chief Engineers of Provinces and States, held at Nagpur from the 15th to the 18th December, 1943.

Our transitory aim should, at the outset, be to re-equip the transport machine—particularly railways—to carry the traffic that comes. But it is more essential to stimulate traffic to the extent of cheapening transport cost to the minimum level. Particular attention should be paid to the alignment of the rates policy in the interests of industry and trade ; for those will be days when every nation, particularly Great Britain and U. S. A., would be engaged in reconstruction and may also seek external advantages, say, of markets. We should ensure the quota of our transport towards cheapening carriage and lowering the prices of our products correspondingly. It is sufficient to cite here as a typical aspect of our rate structure, needing rectification, the favourable rates to and from ports, "a grievance," in the words of the Acworth Committee, "of a long standing."

There is bound to be a radical change in the relativity between transport agencies in post-war days. It was after the last war that the railways of all countries have been shaken with motor competition. This has assumed a severe form in India too; and the Wedgwood Committee have estimated the loss to railways on that count at Rs. 4½ crores. Immediately after this war, the low-cost trucks and the low-wage drivers will surely and seriously aggravate the malady. A similar development occurs in the coastal waters too. The added tonnage of ships will rudely shake railway finances. The railways, whose post-war physical weakness is already pictured above, will be thus exposed to financial uncertainties and adversities. The Government should ensure the protection of railway capital and finances, but must also ensure the usefulness of the extra trucks and ships. The motors should be encouraged towards the non-competitive roads and any excessive stock should be allotted to the new roads that will be constructed in the post-war days—a mileage of 400,000 spread over 20 years, as per the estimates of the Chief Engineers of Provinces and States, who recently met at Nagpur. The Government will be not only undoing all the good of present coordination but introducing a disruptive factor in Indian transport, if they release the war trucks at once, indiscriminately and unconditionally. It would be even wiser to offer first preference of road service to the railways which, being national in ownership, will aim at developing feeder motor services.

The post-war railway net will be sapped of its vitality in the face of an unchecked addition to the coastal fleet. The degree of over-tonnage in every sea and ocean is bound to be

higher after this war than it had ever been before. The incredible rate of American shipbuilding and the growing American interest in world shipping services are firm indications of a steep rise in shipping capacity in the unreserved coastal waters. The Government of India is responsible to provide against it, in self-interest—for it is the owner of railways—and in national interest—for the few Indian coasters will be protected thereby. Incidentally they will have laid the seeds of progressive coastal reservation.

The impact of aviation developments will be even more serious on railways. Civil aviation was the baby of last war and is almost in its adolescence now. The unprecedented rise in aircraft capacity during this war will have a permanent mark on the quicksands of transport relativity. The first aspect of this problem relates to the ownership of future civil aviation. The railways, which are hinted at as probable owners, may be too weak to manage aircraft; further, it may after all become the Cinderella of Indian Railways, starved and sapped. The ideal line of ownership should be the promotion of large syndicates, with Government backing, financial and otherwise, coupled with railway cooperation in matters of through bookings. The Indian Government should not allow of any initial folly permanently affecting the prospects of either the costliest agency, the aircraft, or the fixed agency, the railway.

The second aspect of civil aviation in the transitory days is even more important for us. The British and the Americans have already volunteered interest in the development of world-wide air services, including, surely, concessions over poorly served countries like India. The Government should realise the harm to national interests resulting from such foreign exploitation in our aerial sphere, the difficulty of co-ordination between railways and foreign aircraft and the maladjustments between Indian aircraft and foreign ones. The Government should place priority on a favourable solution of this problem involving national interests and should brace themselves into incorrigible indifference to foreign influences.

The genius of transitory adjustments lies in the smoothing of reversion to normality, while preserving the good features of the abnormal period. Though war has physically weakened our railways, there has been a noteworthy change in the operating indices. The following are typical of operational economics, fathered by war-time necessity :

GOOD INDICES OF RAILWAY WORKING[1]

	1938-39	39-40	40-41	41-42
Train mileage (000s)				
Passenger	... 111,503	108,999	109,040	107,208
Goods	... 69,172	71,744	74,698	81,111
Train Load (Tons)	380	383	389	409
Engine miles per engine per day (B. G.)	... 79	81	83	87
Wagon use: (B. G.)				
Wag miles per wag day	40 2	41.3	42.9	47. 0
Net ton miles per wag day	351	367	392	441

Of course the above changes for the better are a result of increased traffic, long movements and singleness of purpose of carriage—*viz.* winning the war; and have been to some extent at the expense of efficiency of service. However, operational rationalisation in railway working is at least partly at their root. Care should be taken for their continuance, subject only to the extraneous factor, fall in traffic, in the transitory period.

War has fostered a welcome change in inter-railway outlook, which could not be ensured by legislation and commonness of ownership all these days. The notorious disharmony and individualism in the national railway network have automatically been amended. The railways now zealously favour "the adoption of the shortest rail route, wherever feasible, regardless of the financial interests of individual railways"; "the employment of non-pooled wagons, whenever possible, to relieve the strain on the wagon pool"; "certain types of non-pooled stock were placed under the Controller of the Directorate of Wagon Interchange so as to obviate unnecessary light running and securing the maximum use of these vehicles." These should be viewed as only the foundation of the massive heights of harmony in Indian railway working, more necessary than ever in the rebuilding times after the war.

Co-ordination has gone a step further, embracing the activities of the road, railways and the coasters. Their inadequacy and inflexibility have drawn a thick veil on competition ; while the need for their best use has led to positive co-ordination. The pre-war rate concessions of most varieties are now with-

[1] Compiled from statistics contained in ***Railway Administration Reports,***

drawn ; taboo on traffic, not traffic soliciting, is now the practice; selfish all-rail movements are no longer promoted. The Railway Administration Reports cite some typical co-ordinative practices ; "through traffic formerly carried over B. & N. W. and B. & A. Railways via Katihar has been diverted to the combined rail-cum-river route by mutual agreement between the railways and the Joint Steamer Companies" ; "the B. B. & C. I Railway made special arrangements with the Gwalior and Northern India Transport Agency for the running of co-ordinated rail-road services on certain competitive sections parallel to roads." These should be recognised as more than temporary necessities and transport co-ordination achieved, with the railway as the nucleus.

War has not been equally beneficial to road transport, however. The cherished need for large Road Syndicates, dispensing with the operational diseconomy and the administrative difficulty of disorganised motors, is not yet realised in India, though it has already become more than an experimental success in Great Britain. Motor Syndicates have been created there for purposes of fuel economy ; and in effect they "have set out to rationalise all long distance movement of general goods by pooling all traffic and vehicles. The organisation will be grouped under 12 Divisional Road Haulage Officers, corresponding to the Civil Defence Regions ; each Division will be divided into Areas. Vehicles will be grouped into some 450 units, each under a Unit Controller ; each of these units will be centred on a firm with experience of long distance traffic."[1] Road traffic planning has not been half as serious in India. The Government should make amends, firstly, by encouraging or aiding in the creation of Road Syndicates and secondly, by a methodical release of the war trucks with the same object in view. Further the Government should institute research into the real economy of coal buses and facilitate a cheaper road service, if possible.

The Government should realise that its position as a Transport Co-ordinator has improved admirably due to war. Most traffic, on railways, roads and coasters, is on Government account or at least in Government interest. It has gained the place of a dictatorial customer of transport ; and its regulating powers are strengthened by the drastic element characterising its administrative measures and ordinances. Further, war has broadened the base of Governmental vision. It has all along been accused with partiality for the railways, to the negligence

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[1] *Transport at War*, by Lord Leathers of Purfleet, Minister of War Transport, published in the *Journal of the British Institute of Transport*, January 1943.

of roads. Now, however, the Government is as much interested in the efficiency of road service as in that of railways themselves. Its alleged angularity being thus rounded off, it can start with better appreciation for road transport. Lastly, war has unravelled the need for road extension and aerodrome construction in India. The Government is directly or indirectly the main financier of this huge extension and fresh construction; and becomes responsible for the adoption of the principles of co-ordination in the new constructions.

A downward trend of revenues is certain in the transitory days. The real difficulty of falling revenues in the face of almost stationary expenditure cannot be overstressed in the case of railways, an industry of increasing returns. Left to themselves, railways during wartime might have accumulated larger reserves to provide against the transitory misfortunes. But the commercial prudence of such a possibility is victimised by the limitless greed of the warring Government for money. The substitution, for the already rigid Convention, of the excessive rule of division as per 3 : 1 stands self-condemned at the transitory test for the railways. The Government should at least assure that the railways will be exempt from contributions to general revenues unless and until all real railway needs are provided for and profits actually recorded. It will be no solace that the railways should again revert to the pre-war practice of dipping into the Depreciation Fund to satisfy the Government. If the Government does not develop this liberal outlook, they may be unable, in their anxiety for railway profits, to reach the pre-war rate levels in many cases. Evidence is not wanting of rates on wool, cotton and wheat maintained at the high war-levels for a pretty long time after the last war. The Government should guard against this disastrous temptation in the transitory days, when easy conditions should be created for industrial movements.

Before conclusion, it is necessary to place Indian transport in comparison with other Allied Transport Systems. Our contribution to war effort is no meaner than that of others; in terms of real sacrifice it is probably higher. But in the light of the stupendous progress achieved in certain directions by other countries, our transport is to be characterised as crippled and trampled. New shipyards and plane constructions are initiated by sister nations like Australia and S. Africa, under the guise of war effort. Care is taken to ensure the largest possible civilian capacity.[1] Import of needed heavy goods and

[1] "We have a greater volume of shipping employed on our coasts today than we had in times of peace."—Lord Leathers of Purfleet, Minister of War Transport.

tools has been more methodical and less occasional, while, in India, war has meant a helpless, excessive cut in civilian capacity, an unnatural infringement on transport expansion and a rigid restriction on needed imports. The Indian Railways even made a gift of some rolling stock to allied Governments at the beginning of the war. It is not incorrect, then, to say that India has missed a great chance of progress during war time.

It is not wrong to contend that war has weakened transport, apparently irreparably. The reconstruction of the worn-out network should be uppermost in the minds of transport men in the transitory stages. It must be remembered that transport is a basic industry, making or marring industrial prosperity in the country. A little partiality for its excellence is then no real diversion of national attention or Governmental resources ; on the other hand, it has the ample reward of general economic well-being. War has ruthlessly exposed our two chief handicaps—*viz.* inflexibility and planlessness. The former can be remedied by embracing the essential principle of self-sufficiency in the production of trucks, rolling stock, aircraft and vessels, which have been a long-felt need. A definite plan for the future is, however, the more important pre-requisite of stability in Indian transport. It has its three aspects—operational (envisaging the perpetuation, if not intensification, of the present good indices) ; organisational (ensuring better liaison between transportmen and trafficmen and co-ordinating between the different transport agencies to ensure the best service at the lowest cost and of the highest quality) ; and financial (protecting railway capital and revenue from external onslaughts as well as undue Governmental appropriations and creating the necessary conditions for the financial stability of road and other agencies too). The transitory railway plan, itself not too sufficient and complete, has but a doubting support even from its sponsors.[1] On road transport the Government has not yet definitely shaped a policy in all its aspects, though rightly road extension is given overwhelming preference over railway expansion in the transitory days. As regards loco, plane and ship building the Government enthusiasm is no brighter than ever. The Government should think of a plan embracing all transport agencies by officially creating a common platform for the diverse interests. The Indian Government should make haste, when the war is still on, to fortify themselves with definite plans and policies so as not to suffer from tragic unpreparedness for peace, when it comes.

[1]Sir L. Misra's pronouncement at New Delhi on 4th July, 1944.

INTERNATIONAL ECONOMIC CO-OPERATION

BY

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[In this paper I have discussed the various implications of International Economic Co-operation and specially the motives of certain countries in laying so much stress on this obvious but equally much neglected aspect; in the neglect of which they themselves have been so conspicuous. I have shown that the advantages of comparative cost can only be fully realised between nations of equal economic status, and until and unless the various nations achieve economic equality and have more or less the same standard of living, international economic co-operation will always mean the exploitation of the less economically developed countries by the more developed countries. I have further shown that there is a serious clash between progress and security, and various nations who have taken a number of steps to achieve stabilisation have adopted measures quite contrary to the principles of classical economic theory—which demands constant change and adaptation in the phase of changing circumstances. I believe that the world can only have real prosperity when industrialisation permeates to the furthermost parts of the world. In other words, the theory of comparative cost can only work to the benefit of the world when all countries are on more or less equal economic level. Then there will be no longer any exploitation of the backward countries for there will be no industrially undeveloped countries to exploit. Until and unless there is no economic equality between all nations, International Economic Co-operation will always remain the nice and polished name for the exploitation of less economically developed countries.]

The historic declaration of President Roosevelt, more popularly known as "The Atlantic Charter", contains several clauses for providing international economic co-operation. Since then, a good deal of literature in the form of newspaper articles, pamphlets, public speeches and legislative debates, has appeared. The latest enthusiasm shown in this connection was the International Monetary Conference held at Bretton Woods in July 1944 where representatives of 44 United Nations had assembled to achieve co-operation in the monetary field. The results as far as India is concerned were very disappointing. I need not go in this paper into details either regarding the achievements of this conference or to express my disappointment of the manner in which India's very reasonable demands were rejected. My aim in this paper is to examine some of the implications of International Economic Co-operation and especially the motives of certain countries in laying so much stress on this obvious, but equally much neglected aspect—in the neglect of which they have been so conspicuous themselves,

There is no denying the fact that if the world as a whole is to achieve any reasonable prosperity, we must co-operate with others and should not follow the beggar-my-neighbour policy. The need for international co-operation in economic matters is so obvious that one can hardly deny the great need for removing all those obstacles which stand in the way of such co-operation. It is also obvious that it is only through sincere international co-operation that lasting prosperity could be achieved and one could really benefit from territorial division of labour, and reap the advantages of the theory of comparative cost. The two most fundamental assumptions of the classical economy on which its entire edifice was based were full employment, and perfect economic liberty. Taking these for granted, it became abundantly clear that the world economy will be guided by the theory of comparative cost and all countries will specialise in the production of those goods for which they had the most relative advantage. In the 19th century, the economy of the world was developed more or less under the guiding influence of this theory. The new overseas countries had plenty of virgin land and other natural resources but there was lack of labour and capital in those countries. On the other hand, in the old countries labour was relatively abundant and capital was cheap. Therefore men and capital flowed from the old countries to the new countries who specialised in agriculture. The old countries due to density of population and the availability of capital at comparatively low rates of interest and the availability of scientific skill, specialised in the production of manufactured goods. This arrangement worked fairly successfully (though various signs of weakness were apparent later on) until the beginning of the last great war. Since then the situation has considerably changed. Those vast empty regions are no longer available. There has been a good deal of awakening in the eastern countries. The development of automatic machinery and the sale of inter-changeable parts have made the industrialisation of even backward countries much more easier than it could be imagined half a century ago. These countries have the further advantage of cheap labour, big internal markets and the opportunity of getting up-to-date machinery and starting with almost a clean slate. The national awakening in various countries has roused the feeling of nationalism with its economic consequence of national self-sufficiency as far as possible. The old countries compelled by their circumstances have been reviewing their policy. England—the great cradle of free trade and until the late-twenties of this century the greatest champion of the cause of free trade—had to follow the policy of protection and imperial preference. The United States which

until before the last great war, literally used to invite millions of immigrants has now almost put a complete ban. So, as a consequence, we notice that since the last great war, the fundamental assumptions of classical economy do not work any longer to any considerable degree. There is not only no full employment but on the other hand, until before the war started there was unemployment on a very large scale. During the years of the last great depression it was estimated that in the U. S. A. twelve million persons were unemployed in the land of so-called unlimited chances and opportunities. In Germany with a population of less than half that of U. S. A., more than six million were unemployed. In England the number of unemployed was no less than two million. So the assumption of full employment no longer was true.

As regards economic freedom, it was conspicuous by its absence. There was strong resistance to change and various impediments to the free movement of capital, labour, and goods, were introduced in the forms of immigration restrictions, quotas, exchange control, import and export control, and scores of other such restrictive measures.

But a very pertinent question comes to my mind at this stage and it is this :—when between 1933-1939 all these ordained champions of International Economic Co-operation were themselves in the forefront of putting all sorts of obstacles in the way of economic freedom, and even a traditional free trading country like England had not only adopted a policy of protection but had also introduced quantitative control of imports, why all of a sudden there is now so much emphasis on international economic co-operation ? It is on the clear answer to this question that the real issue is to be decided, and in order to answer this question, we have to examine the historical background of the last few centuries so that the real motives of various economic theories should become clear to us.

Taking a leap a few centuries backward, we notice that the mercantilist theories were very popular in the 16th and 17th centuries when the Nations State was in the course of making. England was the cradle of these theories and was a stronghold of the advocates of protection and State intervention. Again we notice that in the middle of the 19th century, England completely changed her policy, because it had completed the first stage of nationalism through protection, and it was clearly to her interest to emphasise the ties that bind nations together. Her philosophers and economists found for a time a more or less ready response to their cosmopolitan teachings. We notice that of all the important countries the United States alone turned

a deaf ear to the preachings of the Manchester School, because it had entered on the first real stage of nationalism. Even after the great war when the United States overnight changed her role of a debtor country and became one of the leading creditor countries of the world, she still continued her old economic policies. As a matter of fact, they were made more severe. Until the last great war freedom of labour was allowed, and there were no serious restrictions for the import of labour in that country, although there were very heavy restrictions on the import of goods. The United States developed a wonderful economy behind high tariff walls. After the great war, there was more or less even a complete stopping of the import of labour, and the tariff walls became still more impregnable, for constantly their height was increased. England, which until the last great war, was the solitary example of the champion of free trade and all other economic liberties, changed its policy slightly after the last great war and completely since the Ottawa Conference in 1932. No doubt lip service was all the time paid by these countries to International Economic Co-operation, but all their practical efforts were devoted to eradicate these from practical life and States became more and more conscious of their own interests. The last great depression was a product of such policies and its prolongation and intensity was due to various national measures taken to encourage home trade and employment and to discourage and restrict international economic co-operation.

Now again we notice that countries like England and the U. S. A. are in the forefront, advocating international Economic Co-operation. Let us see what International Economic Co-operation really involves, and how far are these countries really prepared to face the implications of their own assertions.

Now these countries find that after the great war, their capacity for producing things, due to the experiences of war inventions and techniques, will increase considerably. England through her Empire has built up a very high standard of living for her people which certainly is not justified by her natural economic position. Again the U. S. A. through closed economy and tariff barriers have set up a very high standard of living for its people, which cannot be possibly maintained if she removes her tariff barriers and allows free immigration. These countries want to maintain this high standard of living. This is only possible if they get free access to the markets of the world to sell their surplus production. England, as I have already remarked, achieved her prosperity in the first instance by the momentum of an early start as she was the fortunate

country which was the home of all the inventions, and was the first to start industrialisation on a large scale. She took full advantage of this opportunity and the standard of living increased very considerably. If Malthus, who wrote about the very dark future for England at the end of the 18th century, when she had population of only 10 million, and the wages of agricultural labour less than 1 sh. a day, were to rise a century later, he would have certainly not believed his eyes, because the population had increased four fold and the prosperity still manifolds more. At first it was through industrialisation that England was able to raise the national income and later it was her opportunity to invest this capital in her vast Empire and other countries by which her invisible balance of trade increased very considerably, and consequently her national income took a sharp upward trend. But in the beginning of the 20th century, she found that her supremacy was being challenged by other countries and they were also playing her own game, and were trying to defeat her by the very methods by which she had achieved her superiority. Again the U. S. A. achieved her prosperity due to various natural advantages—a vast country which had very rich natural resources and very little population and developed her resources by a policy of high tariff walls. Now those vast natural resources are no longer available and the population has increased very considerably. The United States, if she now wishes to maintain her prosperity, must find an export market for her products. Therefore, she has lately become a champion of International Economic Co-operation, which she persistently refused to adopt after the last great war, and it was greatly the result of her economic policy that put other countries in such a bad position. On the other hand, other countries of the world have learnt a good bit from the experience of the past years, and vast continental countries like India and China have become fully conscious to the need of improving the economic conditions of their nationals. They find that they have very big population and abundant natural resources. Therefore, they want to develop their economies, and it is essential for them that they must be left to themselves to manage their own affairs in the way which suits them best. A good deal of enthusiasm has been shown by the U. S. A. and Great Britain to improve the standard of living of these countries, but it will take a very long time to achieve this desired end. If they really want to help these economically backward countries and to attain a better world standard of living, I see no reason why they should not undergo the sacrifice of lowering a little their own standard of living to raise the standard of living of India and China, because the disparity between these is very great indeed. The per capita

national income of India in 1931 was only £5 while that of U. S. A. was *£89 and of England £76.* There will be real International Economic Co-operation if these very simple and obvious facts are accepted; but I am afraid, there is no likelihood of their acceptance. The other alternative is, and which is likely to follow, that India and China will be forced to follow an economic policy of their own. It certainly will not be a policy of International Economic Co-operation but will be a national policy aimed to increase their own standard of living. When they have been successful in their pursuit and their standard of living reaches somewhere near the high standard of living at present enjoyed by Great Britain and the U. S. A., which I personally believe, will take a very long time for any other country to achieve, then alone real international economic co-operation will follow.

At present it is inevitable in the interest of the world as a whole that there should be some decrease in the standard of living of the U. S. A. and other western countries, and a rise in the standard of living in the countries of the East. When this stage is reached and the world as a whole becomes more or less a homogeneous unit with more or less equal standard of living in all the countries of the world, then, and then alone, International Economic Co-operation will be of lasting benefit and it will be in the interest of all nations to pursue such a policy. As long as this does not happen, the policy cannot succeed and certainly can be of no benefit to the countries of the East, and I do not mind saying frankly that the countries of the West themselves are not prepared to face fully all the implications of such a policy and are certainly not likely to act up to it. The following very frank account of a very able Australian Economist fully illustrates the contention of my remarks. Discussing the implications of clash of progress and security and the Japanese competition he observes:

"The refusal to admit the necessity for change which is involved in the erection of tariff barriers finds its most emphatic expressions at the present time in the controversy about Japanese competition. Depreciated currency and other factors are no doubt important, but stripped of all the complications and irrelevancies which have crept into the discussion, the problem is substantially this. By various means the Japanese have increased the efficiency of their production in certain lines in such a way as to threaten well-established producers in other countries. The low level of Japanese wages naturally attracts attention in discussion of this point, but it is probably true that while Japanese wages are lower than those common in more

advanced western countries, their level is substantially higher than that which prevailed in Japan forty years ago. In other words, as one might have expected, the improvements in efficiency which have made Japanese competition in foreign markets more keen, have also made possible a higher standard of wages inside Japan. The average Japanese factory-worker probably receives a higher income than he would if he remained at work in agriculture. In the case of a small self-contained group, any marked improvement in the efficiency of one or two members of the group would reasonably be interpreted as a signal to the other that they should not waste their time doing the same sort of work as more efficient individuals were suceessfully attempting. The extension from a small self-contained group to large interconnected national groups does not introduce any fundamentally new factor, although the complexity of the organisation certainly makes the change-over in the character of work demanded from some individuals much more difficult. In a rational world which understood the extent to which Japanese competition was the result of increased efficiency, other groups elsewhere would be happy to enjoy the benefits arising from the performance of work which formerly had been to a large extent neglected, but to which could now be devoted the resources no longer needed for producing goods with which the Japanese are successfully competing. The fact that changes such as these are likely to be enormously difficult does not alter the fact that the changes themselves are sensible and in some degree inevitable. This is, however, far from the common attitude to Japanese competition. Persons already engaged in industries threatened with Japanese competition feel that there is a clear case for excluding Japanese goods from their markets. Sometimes this point of view is expressed as an objection to low wage standards in Japan. That the real problem is not one of low wage standard but of threatened displacement of labour and capital is shown clearly by the fact that protectionists are not as a rule any more willing to admit competition from countries where wage standards are high. But apart from the point, there is an obvious dilemma in pressing the charge of low wage standards against Japan. In effect the Japanese are told that if they raise their wage-levels there will be no objection to their competition, but the volume of Japanese goods in certain industries makes it necessary in a free market for some other producers to change their work, this necessity will not in any way be diminished by the payment of higher Japanese wages. The claim indeed that Japanese wages should be raised is little more than an expression of the hope that if wage-levels were improved the Japanese would find it impossible to produce in competition

with the older units, a conclusion obviously not very beneficial to the Japanese.

It is even more curious that the significance of this point is little appreciated by many of those who profess themselves to be quite sympathetic to Japanese industrial development. The industrialisation of Japan is presented quite fairly as the only method whereby Japan can satisfactorily maintain her large population. Many non-Japanese have reorganised in general terms the force of the Japanese claims to be allowed to encourage industrial growth. This sympathy, however, is often expressed only in vague form which suggests conference in the hope that something will turn up. Actually if Japanese industrialisation is encouraged and the Japanese are allowed to seek such markets elsewhere as they might reasonably claim, it is quite inevitable that one consequence of their industrial growth would be relative decline in the importance in certain other countries of industries already established there. It merely clouds the issue and encourages wooliness of thought, if it is supposed that Japanese case can be met without the necessity of any such changes."[1]

The world can only have real prosperity when industrialisation permeates to the furthermost parts of the earth. Then China, India, Africa and the rest will all have as much capital as now possessed by, say, Great Britain, Belgium and Germany. In other words, the theory of comparative cost can only work to the benefit of the world when all countries are on equal economic level, because then there will be no longer any exploitation of the backward countries, because there will be no industrially undeveloped countries to exploit. At that time the whole world would be divided into series of empires—perhaps a dozen or so—on a level of comparative economic equality which will be the real basis of political equality. When such an equality is achieved, it will then be possible to eliminate all causes of strife and exploitation and each nation will find it to its interest to develop what is best within itself and to carry on beneficial exchange of commodities with the other nations. Then and then only will Adam Smith's dream be realised, namely that each nation will be able to utilise its climatic and other economic conditions for mutual benefit. In that case universal free trade will become profitable to all and International Economic Co-operation will have its real meaning. Until and unless there is economic equality between all nations International

[1] *Clash of Progress and Security*, Fisher A. G. B.

Economic Co-operation will always remain the nice and polished name for the exploitation of less economically developed countries.[1]

MONEY AND THE NATIONS

BY

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The need for international co-operation in the monetary sphere is sure to be felt more keenly during the post-war period than probably at any time before. The growing realization of this imperative necessity by the great nations of the world is one of the most hopeful signs for the future. Various factors have helped to brighten up the prospects of international monetary co-operation. The collapse of the gold standard beyond all hope of resurrection has left a void in international economic relations which needs to be filled. The experience of a decade of fluctuating exchanges, irksome restrictions, blocked accounts and bilateral agreements has amply demonstrated the evils of monetary nationalism and shaken the world out of its complacency. It has opened the eyes of nations to the necessity of devising a rational method of international transfers. Above all, there is a desire on all hands to avoid the recurrence of the monetary muddles which followed the last war and which plunged the world headlong into a depression of unprecedented magnitude. The *interbellum* period has thus conclusively shown that "political internationalism without economic internationalism is a house built on sand."*

THE PROGRESS OF INTERNATIONAL MONETARY COOPERATION

International co-operation to deal with monetary problems has in fact made more progress than is often realized. An important development which began during the last century

[1]Seligman, *Essays in Economics.*

* Wendell Wilkie, "*One World*".

itself was that monetary policy which had till then been regarded exclusively as a matter of national concern was gradually brought to the plane of international discussion. The Paris Conferences of 1867 which dealt with the problem of coinage, if they did not achieve anything tangible, are none the less important as marking the beginning of this new technique. The great conference of 1878 called by the U. S. A. to discuss the prospects of international bimetallism was the first of a series which marked the period between 1878 and 1892. Though devoid of positive results, they showed the hopeless divergence of interests between nations. The final victory of the gold standard towards the close of the century was really a triumph for internationalism in monetary affairs.

The Great War of 1914—18 left a legacy of problems which made monetary co-operation a necessity. The Brussels Conference of 1920 gave a great impetus to the establishment of central banks in the principal countries of the world and to the development of a healthy spirit of co-operation between them. The stabilisation of European currencies in the Twenties would have been impossible but for their closest collaboration. This movement culminated in the establishment of the Bank for International Settlements. But the crisis of 1931 and the depression which followed considerably crippled its activities and falsified the high hopes built upon it. It is, however, idle to pretend that the crisis or the depression could have been averted by a closer co-operation between central banks. The usual method of conferences was not given up without a trial. The Genoa Conference of 1932 set forth the ideal of a restoration of gold and recommended a policy of devaluation. But the wave of depression which swept the world created an atmosphere of extreme pessimism so that the London Economic Conference of 1933 was doomed to failure. The result was that economic nationalism again flared up and international co-operation received a severe setback. The present war, however, has again brought the Allied Nations together and given a fillip to co-operative effort.

"BRETTON WOODS"—AN EPISODE OR A LANDMARK?

There can be no doubt that the post-war period will present us with monetary problems of immense magnitude, the stabilisation of the exchanges, the regulation of international capital movements, the reconstruction of shattered economic systems and above all the problem of unilateral transfers. The primary requisite for tackling these intractable problems is the establishment of suitable machinery for effective international action.

The British proposal for an International Clearing Union, the United States' plan for a Stabilisation Fund and a World Finance Corporation, Charles Dewey's proposal for a Fund to foster Economic Co-operation between nations were all the outcome of a desire on the part of the Allied Nations to plan ahead for the future. The Bretton Woods Conference which has just concluded its labours has carried some of these ideas to the plane of practical politics. It has produced the first international currency agreement to establish a Monetary Fund to stabilise currencies and a World Capital Bank to finance reconstruction. If the agreement would be ratified by the nations concerned and both the Fund and the Bank would be given a fair chance of working out their objectives, the Conference would certainly mark the end of an era and the beginning of a new one. The future alone can decide whether "Bretton Woods" would be an episode or a landmark in the progress of international economic co-operation.

THE MONETARY FUND AND INTERNATIONAL CLEARING

The Monetary Fund represents two distinct lines of development. The first is in respect of international clearing. The system of exchange clearing is a practical device adopted in the first instance by certain financially weak countries during the post-Crisis period. In fact, the first exchange clearing agreement between Switzerland and Hungary was signed in November 1931, a few weeks after the Crisis of September. Primarily intended as a measure to meet the difficulties caused by import restrictions, blocked accounts, and fluctuating exchanges, the system has come to stay. It has helped to tide over an abnormal situation which threatened to stifle the channels of international trade and intercourse. But the experience of over a decade has shown the practical utility of the system as also the possibility of its extension. The Monetary Fund takes a leap forward in making it an integral part of an international system. The advance is twofold. Exchange clearing which was hitherto regarded as a temporary expedient to meet an emergency is to be made a permanent feature. Secondly, it substitutes multilateral clearing in the place of haphazard bilateral agreements.

The advantages of international clearing are undisputable. It would greatly facilitate international transfers by establishing a system of scientific regulation instead of leaving the nations to shift for themselves. It would bring home to the nations the fact that exports will have to be paid for by imports and thus damp the narrow nationalistic enthusiasm to stimulate

exports and close the door against imports. International clearing would also obviate the necessity for many of the existing restrictions on trade in the form of tariffs, quotas, preferences, etc. It would protect the currency reserves of a country from being depleted by continued disequilibrium. It would offset the effects of a temporary adverse balance on the exchanges by a simple adjustment in the clearing accounts. Above all, it would effectively check speculative activities in foreign exchange which have been a perennial source of instability in the past. Thus on the one hand, it would regulate the flow of international trade, and on the other, act as a stabilising force on the national currency systems. Regulation, however, involves some restraints on the freedom of trade, but such restraints are a necessary price we have to pay for ordered progress and they will not be grudged by a world now accustomed to controls and restrictions in practically every field of activity. The great advantage of international clearing over other methods of monetary co-operation is that it is eminently practical. " It does not presuppose either the elimination of political or financial rivalries or the restoration of confidence between nations. It can therefore be established and can operate successfully even in the existing atmosphere of distrust and rivalry ".*

GOLD IN THE NEW ORDER

The second line of development which the Monetary Fund represents is in respect of an international standard. The world has no more patience with Utopian Schemes of international currency. The gold standard was the nearest approach to an international standard we have so far had. It has failed so disastrously that many nations see 'red' even in the talk of its restoration. Yet there are powerful vested interests which cannot be ignored. The U. S. A. as the holder of the bulk of the World's stocks of gold and the British Commonwealth as the principal gold producer cannot afford to disregard that metal. It is also true that gold has still such a profound appeal on the popular imagination that even those who condemn it as a "barbarous relic" cannot easily brush it aside in any scheme of monetary reconstruction. It is in the light of this tangle of conflicting interests that the scheme of the Monetary Fund must be viewed. The planners have rightly accepted the wide divergences in the economic policies between nations, all jealous of their own sovereign right to determine their monetary policy, as facts of the situation. This practical approach to the prob-

* Paul Einzig, *Monetary Reform in Theory and Practice*, p. 278.

lem of currency is perhaps the most noteworthy feature of the present scheme.

The question of an international standard, nay, even an international currency unit like 'bancor' or 'unitas' has been ingeniously avoided. At the same time, gold has been given its rightful place. According to the new scheme* the agreed par value of a member's currency shall be expressed in terms of gold. The gold value of the currency will change with changes in the par value. A uniform change in the gold value of currencies may be made by agreement. Unilateral changes up to 10% are allowed and further changes can be effected with the approval of the Fund when they are necessary to correct any fundamental disequilibrium in the economy. Thus, while all currencies will stand in some defined relationship to gold, the parity between gold and the national currencies will be something alterable with changing circumstances. Gold will also figure largely in the settlement of international balances. The buying and selling points of gold will lie around the parity rate separated by a prescribed margin. Further, the danger of maldistribution is sought to be avoided by the provisions† enabling the Fund to acquire gold from countries which have increased their holdings of that metal.

This is in effect not a restoration of the gold standard but a qualified return to gold. It may not also be correct to call it an International Gold Exchange Standard, for it is important to note that the currencies, though linked to gold, are not tied to any fixed ratio. The revaluation of gold on the basis of elastic parities, while satisfying those who adore that metal as well as those who deride it may well form the foundation on which a return to stable exchanges will be possible. It is at any rate an experiment whose results will be watched with keen interest by the whole world.

PRECONDITIONS OF STABILITY

The elastic element introduced in the rates of exchange has given a certain flexibility which was lacking in the traditional gold standard. But certain conditions must be satisfied if the object of exchange stability should be promoted.

Firstly, there is the danger of some countries having their currencies considerably overvalued at the outset and being compelled to ask for frequent changes in the parity in the face of

* Clause IV, of the *Draft Proposals.*

† Clause III, 7 of the *Draft Proposals.*

continued disequilibrium. Other countries may deliberately undervalue their currencies and thus start a race of competitive depreciation. It is therefore an essential safeguard to fix the original rates as close to the purchasing power parities as possible, so that the necessity for large changes may be obviated in future.

Secondly, if the Fund should achieve any measure of stability in the exchanges, the member countries will have to observe certain unwritten rules with regard to their domestic policy. The domestic monetary and credit policy should be compatible with the maintenance of stability in the exchange rates. For example, suppose a country's price level tends to rise relatively higher than the general price level in the rest of the world, or that its demand for foreign goods increases relatively to the foreigners' demand for its goods. In either case, the country will sooner or later be faced with an adverse balance of payments. The accommodation provided by the Fund may help the country to meet the balance temporarily. But if the disequilibrium in the economy is not rectified, a stage will come when further accommodation with the Fund may not be possible and the country will have to choose between two alternatives: (1) a restriction of credit which will bring down the price level, in other words, deflation, or (2) the depreciation of the exchange. Thus appropriate changes will have to be made in the volume of currency or in the terms of credit from time to time to correct any disequilibrium if frequent changes in the exchange rates should be avoided. The breakdown of the gold standard during the inter-war period has been attributed to the alleged failure of countries to act according to its rules. The present plan would likewise demand similar obligations from the member countries. But the Fund in arriving at a decision with regard to a change in the rate has "to accept the domestic social or political policies of the country applying for a change as facts of the situation to be accepted and not criticised".* This complete neutrality with regard to the domestic policies of the members is not inconsistent with the establishment of international clearing but it may not always be compatible with the promotion of exchange stability.

"ABNORMAL WAR BALANCES"

The question of 'abnormal war balances' accumulated in some countries has come in for a good deal of discussion in recent months. The tentative proposals of the White Plan for

**Explanatory Note* by the V. K. Experts, para 5.

the gradual liquidation of these assets, though far from satisfactory, were an honest attempt to face a very live problem. The complete exclusion of this matter from the purview of the Monetary Fund has caused profound disappointment especially in countries like India which have accumulated these assets at the price of sweat and starvation. It is therefore difficult to bring an unprejudiced mind to bear on this problem. However, we should discount our own bias in examining its various aspects.

From the point of an international organization which is undertaking the ambitious project of stabilising the world's currency systems and providing multilateral payments facilities, it is not surprising that it should refuse to be saddled with extraneous functions. The magnitude of the problem of 'war balances' is itself a sufficient justification for its exclusion. Sterling balances alone amounted to £1472 millions in December 1943, to which should be added the accumulations of later years and the 'war balances' of occupied countries left with enemy powers. It is also perfectly logical to regard it as belonging essentially to the period of transition with which the Fund is not primarily concerned.

Theoretical considerations apart, the question cannot be regarded as a purely economic one. The actual size of the balances itself can be known only at the end of the war. The distribution of the burden of war expenditure may form the subject of 'an inter-Allied agreement based on equal sacrifice,' in which case, Britain hopes to get some relief.* Proposals are also not wanting to 'squeeze the water' out of these balances in view of the inflated prices at which they have been reckoned. In the light of these circumstances and the uncertain condition in which British economy will emerge out of the war, it was too much to expect that Great Britain would give her consent at this stage to the multilateral liquidation of these balances.

The Bretton Woods Conference did indeed recognise that the orderly liquidation of 'war balances' will form one of the most difficult of post-war problems which would require co-operative action. It is possible that the World Bank or a separate machinery set up for the purpose may tackle the problem successfully. At the worst, it can be settled by bilateral negotiations. Given goodwill and understanding between debtors and creditors—and that is the rock on which most schemes break—it should not be difficult to arrive at a settlement and the question of machinery is not very material. At any rate, the

Financial News (reported in the *Eastern Economist*, July 14, 1944)

Monetary Fund can facilitate the multilateral convertibility of such blocked balances as are released from time to time.

PROSPECTS OF THE FUTURE

The International Monetary Fund is in short not a panacea for all our monetary ills. It is a scheme which is limited in design and long range in purpose. The transitional arrangements* make full allowance for the complexities and uncertainties of the post-war period. They give the members almost unfettered discretion to regulate their exchange policy in such ways as will facilitate a return to normal conditions. But from the point of view of India this has to be read along with the explanation offered by the U. K. experts that "this clause allows during the transition period for the maintenance and adoption by members of the Sterling Area of the arrangements now in force between them. Nor is the scheme intended to interfere with the traditional ties and other arrangements between members of the Sterling Area and London, even after the transition period is over." Further, the obligation to maintain free convertibility of its currency is not binding on a member until such time when the member country feels itself in a position to accept it. What is more pernicious still from the point of view of countries like India is Clause III. 5 of the Draft which treats 'all holdings of currency accumulated as a result of transactions of a current account nature during the transitional period' on a par with blocked balances accumulated during the war. Though a three-year period is envisaged for the gradual removal of all restrictions on multilateral clearing, no country is committed to a fixed date. The Fund can only represent and its representations will have no compelling force behind them. Thus the safety valves have knocked such large holes in the structure as to make the Fund somewhat innocuous for the immediate future.

The scheme of the Monetary Fund is not the product of idealism ; it is essentially a practical measure, framed by experts who have not forgotten their nationality. It is a compromise solution which subserves the interests of the Great Powers even at the expense of the weaker nations. But such compromises have been an ubiquitous feature in the tardy progress of economic internationalism. The success of the Monetary Fund, as also of other international organisations, must depend upon the readiness of the nations to act in furtherance of its objects and not merely to pay lip service to its principles. With all its limitations, however, the establishment of the Monetary Fund should be welcomed as a first step in a comprehensive scheme of international economic co-operation.

*Clause X

INTERNATIONAL ECONOMIC CO-OPERATION AND AN INTERNATIONAL STANDARD

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The purpose of this paper is to examine the contention that international economic co-operation requires an international standard.[1] A full-fledged international standard would mean that the whole world possessed the same currency and that currency movements between different countries would be determined by the same forces as determine shifts within the various regions of the same country. For the present however, an international standard will be taken to mean currency systems with fixed exchanges. Under the international gold standard this fixity of exchange rates is secured by maintaining a fixed price between the currency and gold and a free market for gold. Given such conditions, international equilibrium can only be attained by appropriate price and income adjustments between the different countries. On the question of how these shifts in the national income and price structures come about, there is difference of opinion. The classical analysis stands by the rules of the gold standard game explanation.[2] According to it these changes are brought about by the roundabout methods via gold movements and adjustments in discount rates. Dr. Whale working on certain hints thrown out by Harrod and Taussig, on the other hand, holds that such changes come about more directly. Shifts in incomes and prices between countries are more directly adjusted by competition and so the quantity of money adjusts itself to what is required under such income and price structures.[3] It is not however necessary to enter into this issue in relation to the problem under examination. It is clear that the adoption of an international standard will involve considerable changes in national income and price structures for the purpose of attaining international equilibrium.

The manner in which these changes bring about equilibrium is generally agreed upon. Indian monetary history throws con-

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[1]F. A. von Hayek, *Monetary Nationalism and International Stability*. Lecture 5. United States proposals for a United Nations and Associated Nations fund.

[2]Taussig, *International Trade*.

[3]P. B. Whale, *The Working of the Pre-war Gold Standard Economics*. February 1937.

siderable light on this issue. For purposes of this study, India's adherence to the International Standard may be placed between the years 1893—1914. Those were the years when the Indian Exchange rate was fixed at 1sh. 4d. During that entire period, there was not the slightest variation in the exchange ratio. It was also the time when Britain was on the classical Gold Standard, maintaining fixed exchange rates in terms of gold. A study of the income-price structure of the country during this period will therefore yield valuable results.

TABLE 1

Showing prices of export and import and home products, wages in export and domestic product industries, the commodity balance of trade and exchange rates.[1]

Year.	Prices of 28 exports 1873 =100.	Prices of 11 imports 1873 =100.	Prices of 7 domestic products 1873 =100.	Wages in export industries Weekly.	Wages in domestic trades Monthly.	Commodity balance of trade Crores Rs.[2]	Exchange rate Annual Average[2]
1893	112	89	129				
1894	110	84	114				
1895	111	87	120				
1896	117	94	155				
1897	124	86	209	2.75	6.5		
1898	102	80	139	2.75	6.5	35	1s 3.972
1899	100	87	137	2.75	6.5	27	1s 4.069
1900	124	96	192	3	6.5	22	1s 3.973
1901	116	96	157	3	6.5	34	1s 3.988
1902	113	86	141	3.25	6,5	35	1s 4.002
1903	103	88	126	3.25	6.8	45	1s 4.047
1904	104	93	117	3.25	6.8	38	1s 4.045
1905	116	96	147	3.5	6.5	32	1s 4.042
1906	139	105	179	3.5	6.5	27	1s 4.087
1907	145	116	180	3.5	7	11	1s 4.031
1908	151	106	231	3.75	7	17	1s 3.931
1909	133	99	195	3.75	7	42	1s 4.037
1910	127	109	168	3.75	7	51	1s 4.060
1911	136	113	161	4.1	7	50	1s 4.083
1912	145	117	189	3.42	8	41	1s 4.059
1913	154	117	199	4.64	7.39	35	1s 4.069
1914	160	114	222	4.7	7.53	42	1s 4.081

It was pointed out that international equilibrium, given an international standard, will be obtained only by changes in

[1] *Index Number of Indian Prices* 1861—*1931*. F. J Atkinson and D. B. Meek. *Prices and Wages in India.* Department of Statistics.

[2] Y. S. Pandit, *India's Balance of Indebtedness.*

the income price relations of the country. Table 1 helps us to understand how this relation comes about. With the exception of the years 1906—1908, during this whole period, India had a huge favourable balance of trade. During the entire period her exchange rate was fixed. The range of variation of exchange rates during this whole period was even less than what was allowable by the gold points—viz. 2%. How then was equilibrium with other countries with which India had trade relations attained? A study of the domestic prices column shows that it was attained by changes in prices. The price index during this time moved by nearly 100 points. The domestic income column also shows that there was a rise of 16% registered during the same period. The general conclusion may therefore be drawn that a condition of favourable balance of trade for India during this period led to adjustments (1) through the rise in her price structure and (2) through increased spending power in relation to foreign goods. There are other factors to be taken into account—such as India's foreign borrowings, other transactions etc. if the whole story is to be told and all the various minor deviations in the Table are to be explained out that is not necessary for the present purpose.

When we look more closely at Table 1, however, certain other interesting facts come to light. The general adjustments in prices and income that the favourable balance of trade has brought about, have a particular reference to internationally traded goods and the prices of such goods. Column 2 gives the prices of export articles and shows that prices in this group rose by 40 points during this period. Indian export goods were rising very fast in price in foreign markets. Column 3 which gives the prices of the main import goods, shows that their prices changed very little during the years 1893-1903 and during the whole period registered a rise of merely 20 points. Further column 4 shows that factor prices in the export industry and export incomes in general had risen by 100% during the period. Domestic trade incomes had risen in the meanwhile only by about 16%. This means that the changes in incomes and prices in the country are with reference to foreign traded goods only, primarily. That is, it is only export articles prices that rise and import articles prices that fall in relation to the incomes of the country. And so too the incomes in the country rise only in the sense that import goods become cheaper and factor prices in the export industries rise. If then all that equilibrium conditions require is the readjustment of prices of internationally traded goods and domestic incomes, if the relative shifts operate through the prices of foreign goods and home incomes, is it not possible for such international equilibrium conditions to be

obtained by changes in exchange rates? Is not then flexible exchanges as good and effective a means of attaining equilibrium as variations in the price and income structure of a country?

There is one period in India's monetary history which throws light on this issue. The period from January 1917 to December 1926, when exchange rates were moved up and down. There are during this period abnormal disturbing factors which makes this study of limited application. However, the general trends may be observed. Table 2 attempts to summarise the same information as Table 1.

TABLE 2

Showing the same list of items as Table 1

Year	Prices of Exports	Prices of Imports	Prices of Domestic Goods[2]	Wages in Export Industries	Wages in Domestic Industries	Commodity Balance of Trade[2]	Exchange Rate
1917	170	262		4.8	10	80	1s 4.18
1918	199	289		4.85	11	72	1s 4.53
1919	277	274	5.55	5.49	11	60	1s 5.54
1920	281	280	5.26	7.29	12	114	1s 9.69
1921	239	228	5.58	7.6		—79	1s 8.67
1922	245	201	6.08	7.6		—33	1s 3.89
1923	224	193	6.42	7.4	11	69	1s 3.74
1924	222	217	5.91	7.5	11	126	1s 4.46
1925	233	211	5.61	7.1	11	146	1s 5.51
1926	225	195	5.52	7.3	11	150	1s 6.08

During the years 1917-1926, India was not on an international standard as defined above. Her exchange rates were relatively flexible. Column 8 shows that exchange rates at this period varied over a very wide range, in spite of some control and manipulation. A 40% variation over this period is noticeable. Column 7 shows that the commodity balance of trade at this time also was subject to great expansion and contraction. With the exception of two years, the lowest figure now—60 crores rupees—is 20% above the highest figures reached during the pre-war years we have considered in Table 1, and the highest now is 300% higher than that figure. In face of this large

[1]Seers per Rupee of Rice. *Index Number of Indian Prices*, 1861—1931.
[2]*Review of the Trade of India.*

annual favourable balance of trade, how was equilibrium reached during this period? Column 4 shows domestic prices remained comparatively steady, registering less than a 20% rise. Similarly domestic incomes, as recorded in column 6, remained relatively stationary, showing a 10 to 20% rise. It is the prices of export articles that moved up considerably, registering a movement of 177 points either way during the period. Table 5 shows the movement in greater detail of the most important articles of Export during the period.

TABLE 3[1]

Year	Picked C.C. Cal Jute per bale of 400lb	Cotton Raw Broach Bom per candy of 784lb	Silk Raw Cossimbazar per factory seer. 1.86lb	Wool Raw Khoesan
1917	61.8.0	461.0.0	22.0.0	37.0.0
1918	55.8.0	653.0.0	24.12.0	37.8.0
1919	100.0.0	635.0.0	25.4.0	38.0.0
1920	87.8.0	502.12.0	28.0.0	32.0.0
1921	96.0.0	323.0.0	27.8.0	21.8.0
1922	89.8.0	512.12.0	33.8.0	22.12.0
1926	114.8.0	346.4.0	36.8.0	46.0.0

Very considerable variations took place therefore in the prices of export articles, jute showing 100 points variations, cotton showing 50 points changes, silk 65 points movements, and wool 108 points variations. Further column 3 of Table 2, records about 80 points variations in the prices of import articles. The prices of foreign goods thus show considerable movements over this period. Grey shirtings Cal per piece moved up from 7. 5. 0 in 1917 to 17. 8. 0 in 1920 and 15. 3. 0 in 1924. Again Iron: flat, bolt, bar and square was 24.10. 0 in 1917, 30. 0. 0 in 1919, 20. 0. 0 in 1921, 19. 0. 0 in 1924.[2] So the variations in particular import prices are even wider in range than the index number of import prices indicated. Column 5 shows that incomes in export industries varied considerably. The range of variation was approximately 75 points.

The results may now be summarised. During this period exchange rates varied over a considerable range relatively to the previous period that was examined. During this time there was

[1] *Index Number of Indian Prices*, 1861-1931.

[2] Herschell Commission, *Minutes of Evidence*.

a wide movement in the balance of trade account of the country. Further while domestic prices and incomes were during this period relatively stationary, prices of internationally traded goods and factor prices in those industries show considerable variation. Currency History in India therefore bears out what currency theory suggests. During the period 1893-1914 when there was an approximation to an international standard, international equilibrium was attained through constant and considerable shifts in the entire income and price structure of the country. During the period 1917-1926, when the exchange rates were relatively flexible, international equilibrium was attained without shifts in internal price and income relations. During this entire period a considerable part of the adjustment was effected by variations in the exchange rates.

But the conclusion must not be pressed too far. A more careful scrutiny of Table 2 shows that some changes even in the internal income and price structure is inescapable. It was seen that a 10 to 20% range of fluctuation in the domestic income and prices even during the period of flexible exchange rates took place. The reason for this is clear. During the former period of fixed exchanges, the regular increase for India's exports, increased the demand and prices for factors used in those industries and also of the factors which are in joint demand. Hence there took place a general all-round increase in incomes and prices. During the later period of variable exchanges only part of the price adjustment took place through flexible exchanges. Even this depends on two important considerations. The first is a relative flexibility of income structure. This is absent in India, so that such rigidity as there is, always leads to unemployment. Secondly the response of price adjustments to international equilibrium in relation to particular countries which have different rates of productivity and are in different stages of development, makes such adjustment difficult. Hence in the absence of an international standard, equilibrium conditions can be attained with a smaller scope and amplitude of the range of price adjustments. The definite decrease in the range of internal price changes is a very real gain, both for the particular country and the world.

A general case has been made out for flexible exchange rates. Now the further question that arises is whether the movement in exchange rates which occur will be the appropriate rates—that is to say, in accord with what the changes in demand for exports and imports require. Two independent sources of disturbances may arise which may not allow of the appropriate exchange rate variation. First is the movements of

capital from one country to another. Under an international standard, these capital movements will involve monetary transfers from one country to another and so the shifts in spending power. As far as India is concerned, and as far as capital movements from Britain to India are concerned, even the period of flexible exchange rates, 1917-1926 must be reckoned as a period when the country had an international standard. Table 4 gives figures relating to the sale of council drafts and paper-currency circulation during this period.

TABLE 4[1]

Year	Sterling securities	Paper Currency Circulation	Estimate of Capital Imports
1917	38	86	
1928	51	99	
1919	82	153	
1920	86	173	·5
1922		158	1.2
1925	20	184	12

For as columns 2 and 3 of Table 4 show note currency was created in the country against balances and securities held in Britain. This is what happens under an international standard, except that such shifts take place through an actual movement of gold. Now the interesting problem is, as Dr. Whale points out, that in an international standard there are two different adjustments called for.[2] There is first the primary changes in incomes and prices, which is what we have described here. That is an expansion in Indian incomes and prices and a corresponding decrease in British incomes and prices. This primary change or adjustment must take place even under a standard with flexible exchange rates. But an international standard requires also what has been described as a secondary adjustment. That is adjustments in incomes and prices over the whole range of industry and therefore in internal incomes and prices as well. Now, an examination of Tables 2, 3, and 4 suggests that during the period of flexible exchange rates, some part of this secondary adjustment was made through exchange rate variations. Tables 2 and 3 show that while incomes in the export and import industries varied very widely, domestic incomes and prices remained

[1]Reports of Controller of Currency, *Statistical Abstract of British India.*

[2]P. B. Whale, *Economica*, No. 9, 1936.

relatively steady. But Mr. Whale also demonstrates that this involves one very essential fact. In the absence of an international standard, capital movements will not be accompanied by appropriate expansion of spending power in the borrowing and contraction in the lending country. Some hold-up in the flow of money to the producers in the borrowing country is bound to occur. This would involve contraction in the spending power of the borrowing country, obstruction of the transfer of real capital, leading to exchange appreciation. The exchange rates here would appreciate, moving away from the appropriate adjustments in the rates that capital transfers per se would involve. In this case the way out would be for the monetary authority to vary the volume of purchasing power, in order to avoid exchange appreciation and depreciation in relation to the appropriate rates. To some extent at least therefore the expansion and contraction of the note currency during the period of flexible exchanges in India during this period, which has been subjected to such well merited criticism on other grounds, may have been necessary—though the authorities may have never conceived of it in this manner.

The second source of disturbance to what has been described as the appropriate exchange variations is through what are termed overvaluations and undervaluations of currencies. These deviations cannot be calculated as they usually are on the basis of national price levels, for that would be to assume for the index number technique a greater degree of accuracy than we are entitled to do. Following Mr. Whale,[1] we may define these terms, overvaluation and undervaluation, more simply, exactly and realistically, with reference to their effects on the international trade of the country. Overvaluation of the currency comes about when the rate established is such as to expand the country's imports relatively to its exports. Undervaluation, similarly, exists when the rate is such as to develop the exports of the country in relation to its exports unduly. Such fluctuations in the currencies and consequent effects on the exchange rates may come about either through the action of the people or through the action of the State. Under the first cause, the movement of Hot Money is the most familiar phenomenon. Such panicky movements of capital mean undervaluation for the country from which such movements take place and an expansion of its export trade and a relative contraction of its imports. Given the capital transfers, such a favourable trade balance is necessary. It is the capital transfers which are abnormal. This involves a double deflationary pressure in the receiving country, in that the amount of goods available there is increased without an

increase in incomes and also the resources held by foreigners are not expended, thus decreasing the volume of spendable resources. Such a deflationary pressure would be absent in the case of normal capital requirements. Table 5 attempts to examine this theory in the light of India's monetary history.

TABLE 5

Year	Balance of exports over imports. Cr. Rs.[2]	Sterling loans raised Mil. £s[3]	Total Sterling debt Mil. £s[4]	Import of Bullion Mil. £s[2]	Index No. of prices. U. K. Base 1890[5]
1917	80		174·14	32·03	228
1918	72		236·95	44·22	269
1919	60		202·52	62·35	283
1920	114	..	192·63	64·55	342
1921	--79	17·5	191·32	8·59	275
1922	—33	32·5	205·11	12·25	202
1923	69	20	242·63	59·54	198
1924	126		263·80	47·89	212
1925	146		341·04	94·05	225
1926	150		342·19	51·97	191

In the absence of more direct evidence, following the indirect method suggested by Y. S. Pandit[6], columns 3, 4, & 5 of Table 5 suggest that during this whole period there was an unusual movement of capital away from India into the United Kingdom. Hence it is not surprising that with the exception of the abnormal famine years 1921 and 1922, columns 2 and 5 show a steadily mounting favourable balance of trade for the country. Again with the exception of the year 1920, when some abnormal monetary and real factors operated, column 6 of Table 5 shows that the deflationary pressure in the United Kingdom, the movement of capital away from India was a contributory factor. But the position is an even more complicated one as the table below will show. For while capital movements outside the country were taking place, the government were at

[1] P. B. Whale, *ibid.*

[2] Review of The Trade of India.

[3] Indian Year Book.

[4] Finance and Revenue Accounts of the Government of India.

[5] *Economist.*

[6] Y. S. Pandit, *India's Balance of Indebtedness.*

the same time engaged in a series of operations which led to the overvaluation of the currency and the exchange rate particularly during the years 1920-1922.

TABLE 6

(in crores of Rupees)

Year	Total Rupee Loans raised in India[1]	Treasury Bills outstanding[2]	Reverse councils sold[3]	Paper currency cancelled[4]
1917	6.7			
1918	39.7	43.57		
1919	57	49.24		
1920	21	52 98	72	30
1921	30	104.93		
1922	4 9	111.85		
1923	47	71.23		
1924	24	51.77		
1925	12	49.65		
1926		49.65		

Here we have some evidence of the overvaluation of the exchange rates. Columns 2 and 3 show the large amounts of Rupee loans and treasury bills issued from 1919 to 1923 and the deflationary pressure consequent on such issues. Column 4 shows that the deliberate attempt to overvalue the Rupee in terms of the Pound sterling reached its climax in 1920, when 72 crores of Reverse councils were sold out. About 30 crores Rupees paper currency was cancelled in the course of six months. The effects on the export, import trade of the country we have already seen. We have seen that in 1921 and 1922 (*vide* Table 5), imports were far in excess of exports and it is this opposing factor right through this period that has acted as a drag on the export trade of the country. Otherwise the favourable balance would have been larger than it actually was.

The position that we have reached now is this. International equilibrium can be reached without an international standard. It is possible under a system of flexible exchange rates for such equilibrium to be reached through incomes and

[1]Memoranda of the Secretary of State for India.

[2]Finance and Revenue Accounts of the Government of India.

[3]Report of the Controller of Currency.

[4]Report of the Controller of Currency.

prices remaining relatively stable and exchange rates moving to bring about the needed adjustment. Actually currency history in India has shown that such flexible exchange rates have inflationary and deflationary repercussions on the price and income structure of the country and the other country with which it has trade relations. Now this is the ground on which some regulation of even such flexible exchange rates is required. It has been shown that when exchange rates are left to themselves to adjust themselves, the adjustments brought about are not the appropriate ones. Hence some regulation of free exchanges is inescapable, at least to offset the tendency to overvaluation and undervaluation inherent in unregulated flexible exchanges. But the difficulty with such regulation is a really serious one. Again a very illuminating factor comes to light from an examination of India's currency history. In India's trade relations with Japan during the years 1929-1936, when the Indian Government took steps to prevent its currency becoming overvalued in relation to Japanese Currency, the Japanese Government thought that India was trying to undervalue its currency, while all that was being done was that the Indian Government was trying to protect itself against overvaluation. This suspicion led to quotas, restriction, tariff wars and further depreciation. The solution to this problem is co-operation between the national authorities and an attempt to work out some agreed policy.

The general conclusions suggested by this paper are that international economic co-operation does not require an international standard, if by an international standard is meant a currency system with fixed exchange rates. In passing, it may be pointed out that even if there were a general return to an international gold standard after the war, some management of Gold with regard to its value and distribution will be necessary. International economic co-operation with its concomitant of international equilibrium can be attained under a system of free and flexible exchanges. Under such a system two conditions must, however, obtain. Some sort of regulation of exchange rates will be required. Further some degree of international co-operation with regard to this regulation will be necessary.

INTERNATIONAL CO-OPERATION FOR CONTROLLING TRADE CYCLES

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I

It has long been noticed that the great financial crises which appeared at frequent intervals from the beginning of the 19th century were not confined to a single country but had an international sweep. Facts regarding the synchronisation of the different phases of the trade cycles in different countries have not till recently been collected and studied systematically. The publications of the National Bureau of Economic Research, U. S. A. enable us to see the trade cycles in their international setting.

The Business Annals published by that body show that amidst all the differences due to the impact of local conditions there exists an international pattern to which business fluctuations in different countries conform in varying degrees. They show that this conformity is most marked in the case of countries which have a developed form of capitalistic organization and countries which have close trade and financial connections with them. The Annals show further that these trade and financial relations have been becoming closer and extending over wider areas so that the tendency for the synchronisation of the different phases of the cycles has been becoming stronger.

Three types of explanations might be suggested for this phenomenon. All these have not been explicitly stated in the literature on the trade cycles but they readily suggest themselves to a careful student of the subject.

(1) The simultaneous appearance of the cycles in different countries may be attributed to cosmic or to psychological factors. If the cycles are related to spots on the sun all countries would be affected similarly. If, on the other hand, they are due to alternating waves of optimism and pessimism, it is possible to argue that people in all countries would be affected by these waves. The sun spots theory is rejected by most of the economists and the psychological theory is not,

by itself, sufficient to explain the appearance of the different phases of the cycle.

(2) A few writers have suggested that the international finance factors are the cause of business fluctuations. In his study of the Australian foreign loans Prof. Wood has stated that the one efficient cause of business fluctuations in that country was the varying rate of foreign borrowing. It has been argued by Benham that Australia would have had the same cycles even if she did not borrow from abroad, though the intensity of the cycles would have been different. Even if the view of Prof. Wood is accepted, the causes of the international cycles are yet to be found, as that view relates only to the cycles in Australia.

The view that international long-term capital movements are the cause of the short business cycles has been stated by Hilgerdt in an essay contributed by him to the volume of essays presented to Prof. Cassell. According to Hilgerdt export of long-term capital from industrial countries to countries producing raw materials makes the terms of trade unfavourable to the creditor countries. This raises the prices of raw materials used by the industrial countries but the prices of finished products do not rise proportionately. This reduces the business activity and when capital exports are reduced there will be a revival.

Even if this description of events is accepted as true, it is difficult to maintain that capital exports cause business fluctuations. It may very well be argued that fluctuations in capital movements are the result of business fluctuations. Statistical studies relating to capital movements do not clearly distinguish between the short-term and long-term capital but theoretical analysis supports the view that booms stimulate the export of long-term capital and depressions diminish the exports. So what is the effect of business activity cannot be the cause.

(3) A more tenable explanation of the international character of the trade cycles is that the transition from one phase to the next is effected in any one of the important countries and this is transmitted to other countries either through the balance of trade in commodities, through capital movements or through both. When a country's economy is going through the prosperity phase, prices and incomes in that country would rise and the increased income would partly be spent on the increased purchases of foreign commodities. Incomes and prices in the foreign countries would also rise and this would raise the business activity abroad. The rapid adjustment of one country's business activity to that of others may be facilitated by the movements of short-term capital between industrial countries

and by changes in the magnitude of long-term loans made by industrial countries to the countries producing raw materials. Similarly the change from prosperity to depression is transmitted by the movement of the above factors in the opposite direction.

II

Measures suggested, and employed to varying extents, for the control of trade cycles may be classified under four heads :— 1. Monetary, 2. Fiscal, 3. Financial, and 4. Public Investment.

Monetary measures take generally the form of controlling the rates of interest in the money markets with a view to control the level of private investment at home and the rate of exchange between a country's currency and the currencies of other countries. When most of the leading countries were on gold standard it was suggested that the value of gold might be internationally controlled by controlling its production. This would have eliminated one of the causes of fluctuations in price levels. It is now clear that gold would not occupy the same position in monetary systems as before and so this proposal loses its significance. It has also been suggested that the Central Banks of the different countries should have an understanding for pursuing a common credit policy. There are possibilities of development in this direction but in view of the experience during the last depression every country is claiming the right to have an autonomous monetary policy. International co-operation in this matter is both desirable and possible but international control is impracticable howsoever it might be desirable.

The other three measures must necessarily be national in their scope. Owing to differences in the economic development of different countries and to the necessity of using different instruments to a varying extent in different phases of the trade cycles, an international organ is not the most competent body to undertake the function of selecting and applying the necessary measures, even if we disregard the question of sovereignty. Any international body that might be set up for this purpose would be an advisory institution, though certain measures of a limited nature may be taken by it to regulate the flow of investment. It has, for instance, been suggested by Meade that international public works like the railways, roads and air lines which cross the frontiers of several states might be so planned by an International Commission that the works would be undertaken in all countries during depression. This may be desirable

and possible but the effect of such a measure on business activity will not be appreciable.

III

Thus control over the trade cycles does not require international administrative machinery but it requires an agreement among the nations with regard to the objectives of economic policy to be pursued by each nation and to certain facilities to be given to the nations which pursue the policy agreed to.

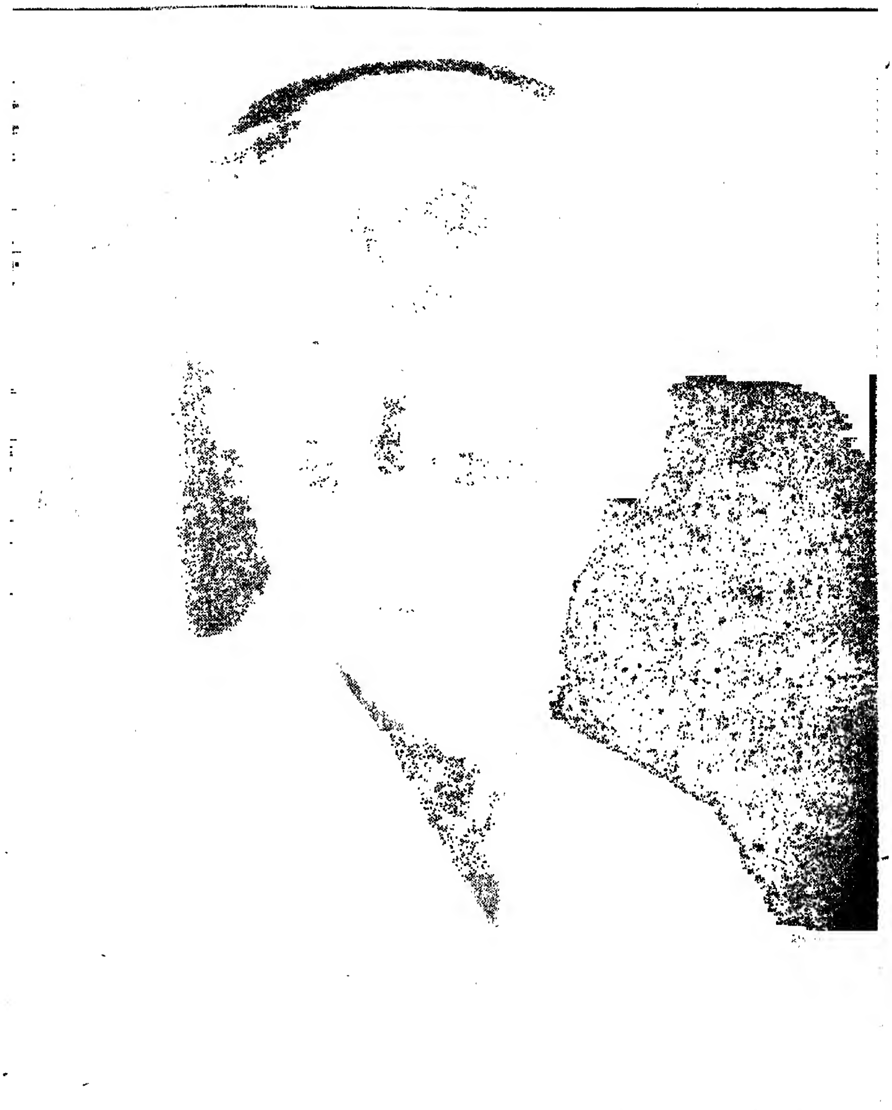
From this point of view the recent agreement for establishing an International Monetary Fund marks a new stage in international co-operation in economic matters. The agreement contains some provisions which are important from the point of view of the subject under discussion.

In the first place, one of the objectives of the members is said to be the maintenance of a high level of employment and income. This objective is not given much prominence and if the language used is strictly interpreted, membership of the organisation does not appear to involve the obligation of maintaining full employment. But it is hoped that every member will realise that there is such an obligation and that the facilities afforded by the institution would be made conditional on undertaking this responsibility.

It is only on the basis of a policy of full employment that the reconciliation of the interests of the different nations could be effected and co-operations between members assured. When one country is having less than full employment and the others have full employment, the former would be in a position to increase its exports to other countries and the other countries would be forced to take measures to protect their home manufactures. It is therefore in the interest of every country to see that full employment is maintained in all other countries. Thus a policy of full employment pursued by all will reduce the frictions between countries in the economic sphere.

Maintenance of full employment by a country requires the co-operation of other countries if it is not to be forced to take unilateral action. There might be temporary difficulties caused by climatic conditions or by changes in industrial technique and in order that these difficulties might not be aggravated by international trade factors, it is necessary to have the active help or the passive forbearance of other countries.

If such a country wants to balance her international accounts, it has several alternatives. It may devalue her currency, impose restrictions on imports or obtain short-term



DR. V. K. R. V. RAO

SECRETARY

Dr. V. K. R. V. RAO

Dr. V. K. R. V. Rao, the Honorary Secretary of the Indian Economic Association, is only 36. Had a brilliant career, obtaining 1st Class in all University classes in India and at Cambridge. Winner of Cobden Club Medal, Bombay; Dada Bhai Naoroji Memorial Prize, Bombay; Adam Smith Prize, Cambridge; and Garton Studentship in Social Sciences, Great Britain. Has filled in a number of academic posts of distinction in Wilson College of Bombay, Karnatak College of Dharwar, Andhra University, and S. L. D. College of Ahmedabad. Is now University Professor and Head of the Department of Economics at the Delhi University. At present Dr. Rao's services have been borrowed by the Government of India in the Food Department, but he at the same time retains his University post and has been afforded facilities to do a limited amount of academic work. Was Madan Memorial lecturer, Bombay, 1931; Member and Secretary, Bombay Economic Survey Committee, 1938-40; Member, Industrial Advisory Board, Government of Bombay, 1938-40; Member, Provincial Rural Development Board, Bombay, 1938-42; Fellow of the Bombay University, 1939-44. Is a member of the Consultative Committee of Economists and of Indian Central Cotton Committee. His publications includes *An Essay on India's National Income*, *War and Indian Economy*, *India and International Currency Plan*, *Taxation of Income in India*, etc.

credits from foreign countries. Raising of import duties to correct a temporary adverse foreign balance is not considered desirable. Import duties are fixed with reference to the long-term needs of a country's industries and frequent changes in these rates may increase the uncertainty associated with foreign trade. Devaluation of a currency may be resorted to if the prices and costs are higher than in other countries and if it is not practicable to reduce them. When there is adverse balance in international payments it is not possible to judge immediately whether this is due to temporary cause or to changes in the real factors of a more or less permanent character. The country requires some accommodation before it finds the real cause for the disequilibrium and decides upon the appropriate measures to be taken.

Before the last War industrial countries were obtaining short-term credits from abroad by raising the Bank Rate to a level which attracted short-term funds from abroad. The movement of short-term capital was thus an equilibrating factor under the pre-War conditions but after the last War, due to several well-known reasons it became a disturbing factor. Further this method of obtaining short-term credits was available only to countries with well organised money markets. The provisions in the Monetary Agreement meet these difficulties. A country can have a deficit balance upto 25 per cent. of its quota in any one year and not more than 200 per cent. on the whole. This will give sufficient time to the deficit country to study the situation and devise adequate measures. If the deficit continues due to changes in the real factors, the country can change the external value of its currency upto 10 per cent unilaterally and beyond that with the permission of the Fund.

IV

Maintenance of full employment and prevention of depressions requires another condition which does not fall within the scope of the International Monetary Agreement. Even before the present War the problem of maintaining full employment was made difficult in advanced industrial countries like U. S. A. and Great Britain by the absence of profitable channels of investment for the savings made at that level of employment. As employment increases national income rises and consequently savings also increase. As investment increases marginal efficiency of capital falls and so the increased savings will not find profitable fields for investment. It is now recognised that the prosperity phase comes to an end when the marginal efficiency of capital falls while savings increase due to the

increase in the national income consequent on the increase in employment.

The present War has greatly increased the productive capacity of some nations like the U. S. A. and if the saving habits remain the same the problem of maintaining full employment will become still more difficult. The difficulty may not be felt for some years because of the postponed consumption and the certain rise of new needs like travel by air the provision of which will absorb some of the increased savings. But the difficulty will appear sooner or later. These countries should be enabled to export capital or they would export depressions.

The agreement relating to the establishment of an international Bank for supplying capital to backward countries and countries which have to reconstruct the industries destroyed by the War provides a way out of this difficulty. It would give organised assistance to countries which need foreign capital for developing their industries without political considerations and it will provide an outlet for the excess savings of the advanced countries. There are limitations with regard to the loans given or guaranteed by the Bank and these may be removed when the post-War situation becomes clearer.

If the above two bodies work satisfactorily and if they become real world organisations, the basic requisites for the success of a policy of full employment will be provided. Each country may try to raise its national income and the standard of living of its people without fear of being exposed to the vagaries of the trade cycle.

THE ENDS AND MACHINERY OF INTERNATIONAL ECONOMIC CO-OPERATION

BY

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In an edict issued about 2200 years back from the banks of the Ganges at Pataliputra, the Emperor Asoka expressed his deep remorse for the Kalinga War in burning words that still ring true across the ages: "If a hundredth, nay, a thousandth part of the persons who were then slain, carried away captive or done to death were now to suffer the same fate, it would be a

matter of remorse to His Majesty." He further expressed his deep conviction that the only true victory is the victory of *Dharma* (the Moral Law) and the conquest of Dharma is the only satisfying conquest which brings *Anand* (delight). Like many other empires, the Mauryan Empire of Asoka is dead and gone, but the Mauryan message reinforced and amplified by the subsequent teaching of Christ and a host of other prophets and reformers still sustains the faith of the weak and remains the hope of mankind. It has been obscured by invasions and been repeatedly submerged under a tide of barbarian ideas of might from Asia, Europe and America, but however dim, the flickering light of its truth shines, sometimes in jails, sometimes on the Cross and acts as a beacon to the weary and the oppressed. It sometimes blazes with a blinding glare in the project for a Holy Alliance after Napoleon's downfall, or Wilson's project for a League of Nations or Roosevelt's dream of a world free from fear and want ; sometimes it is enveloped in such impenetrable darkness as to be hardly visible, but the faith lingers that it is always there, and will be there, as long as the world suffers from wars and its *unappeased* desires.

2. It is against this background of a moral order, which I believe will prevail in the end over all obstacles, and of a world political order based on justice to the weak as well as to the strong, that I wish to consider the question of International Economic Co-operation. Every economic organisation assumes a philosophy of life which commends itself to its supporters and no economist ever advances a proposal which is not deeply rooted in the scale of moral and political values which he accepts. It will save unprofitable controversy and avoid much pointless criticism if these philosophical assumptions are made explicit at the very outset, instead of remaining implicit like hidden rocks on which smooth reasoning may founder. Perhaps this standpoint may sound as too idealistic in the light of contemporary circumstances of war, imperialism and economic exploitation. Without condemning all wars—particularly wars which become inevitable for establishing righteousness (though even here it is next to impossible to determine who is right and who is wrong) and without denying that war may have paid some conquerors *in the past in the short run*, it is impossible in the *modern world* to disagree from Norman Angel's thesis that war does not pay anybody. Leaving aside the moral and psychological point of view, even from the limited economic standpoint, the present war, like the last Great War or the Crimean War, will have been fought in vain. It will settle nothing except perhaps the question that it was not necessary. The money and labour spent on it might have been spent more

profitably on raising the world standard of the masses which would have been beneficial to all nations, the victors and the vanquished, the exploiters and the exploited. Ignoring the real sacrifices of the war in the shape of malnutrition, disease, famine and death by starvation and war, it has been estimated that the monetary cost of U. S. A. alone on the war up-to-date is about 99 billion dollars or 33,000 crores of rupees. This roughly represents thrice the cost of the Bombay Plan and as a similar plan for China would not have cost much more, it is reasonable to argue that the war expenditure of U. S. A. alone would have raised the standard of living of half the human race to a point which would have kept the factories of all the Great Powers of the world busy for the next 100 years. If the war expenditure of Great Britain, Germany, France, Russia and Japan, China and India had been similarly diverted to construction rather than destruction the whole world would have been, materially speaking, proportionately happier. The conquests of Peace dreamed of by Asoka are more enduring than the conquests of War achieved by Alexander, Changhis Khan, Napoleon or Bismark. This is not merely a philosophical generalisation but is capable of historical and statistical verification. The peaçe after Waterloo did not last more than 15 years; the uneasy and armed peace after the Great War did not last beyond a generation, and looking at the portents in the sky, the next peace, even if secured by the armed might of the Great Powers, will not last beyond the next 25 years, because it does not promise to solve the problems of political freedom, freedom from want, racial prejudice and economic justice. The ink on the Atlantic Charter is hardly dry before the three Great Powers have started to scramble for gold, for markets, for territories and bases within and outside their orbits, for cartels and monopolies of commodities like rubber, tin, sugar, cotton, wheat, meat, tea and oil. Only recently, an Anglo-American petroleum commission has been set up to regulate the production and sale of oil throughout the world. The Holland Government without a habitation and a home still casts covetous eyes on the East Indies' reserves of oil, tin, sugar and rubber ; and Russia wants to know from Persia at the point of the bayonet, why it cannot 'lease' its petroleum deposits *before* instead of *after* the war. It appears that freedom can wait, but oil concession cannot.

3. The prospects of true International Economic Co-operation under these circumstances seem to be somewhat discouraging. For our purpose, it is therefore as essential to distinguish between false and true co-operation as between socialism and the servile state. Co-operation, to be fruitful,

must be one between equals, or, if between unequals, it must be based on the free choice of the co-operating parties. Much of what passes for co-operation in the contemporary world is the involuntary union between the Strong and the Weak, between the Lion and the Lamb. This passes off under the names of Commonwealth, Co-prosperity Sphere, Federation and Hemispherical Solidarity. The love of the lion for the lamb is, however, essentially unilateral in character, rarely reciprocated but nonetheless in the contemporary world is paraded as altruism. In the name of hemispherical solidarity or Pan-Americanism the U.S.A threatens Argentine with economic sanctions and suspects Great Britain of intrigue in South America against the spirit of the Monroe doctrine, if it does not fall in line with that policy. The autonomy of the Russian republics which constitute the U. S. S. R. sometimes reminds one of the guineas which the wife of the Vicar of Wakefield gave to her daughters as pocket money on the condition of never spending them and the independence of Egypt, Iraq and Syria seem to savour of the same order. Such involuntary unions and spheres of co-prosperity are sometimes worse than isolation and anarchy as they result in the merciless exploitation of the weaker partners by the strong and drag the former against their will in the quarrels of the latter. True international co-operation, whether in the political or the economic field, must have an organic quality which benefits all—the strong as well as the weak so that the weak becomes strong and the strong becomes stronger. In the economic sphere, it should have for its object the maximisation of the world dividend so that the total amount of goods available for human consumption and welfare may be the largest in each country and the whole world. This is not an impossible ideal. Nor is the economic welfare of one country incompatible with the welfare of the world, if irrelevant dreams of empire, domination, glory and national prestige are ruled out. We are now fast outgrowing the old fallacy that the economic gain of one country can only be obtained at the expense of another. This changed outlook on the solidarity of nations was only recently expressed by the Right Hon'ble John Amery who deprecated the idea that Great Britain could only maintain its industrial greatness by pursuing a policy of "beggaring my neighbour" in India. The new attitude receives ample support from the statistical data about the imports of countries which have achieved industrial greatness. During my inquiries on the Wool Tariff Board in 1934-1935, I had occasion to examine the woolen import figures of the leading wool manufacturing countries of the world which were anxious to export their manufactures to India—namely, Great Britain, U. S. A., Germany,

France, Belgium, Japan, Italy, Poland etc. and I was greatly struck with the large amount of woolen goods these countries imported from each other—and notably from Great Britain, France, Germany and Japan, while all of them were anxious to compete for the very small woolen market in India at the expense of the Indian home industry. It was obvious that a rich industrialised nation is a much better customer for the world's goods than a poverty stricken and purely agricultural country like India. It may therefore be taken now as axiomatic that the industrial progress of India and China is not incompatible with the prosperity of Great Britain or U. S. A. Indeed before the war Japan and Germany were better customers of U. S. A. and Great Britain than China and India respectively. This truth has dawned simultaneously on the minds of the Right Hon'ble Mr. Amery and President Roosevelt who in a recent election speech promised to provide 50 million full-sized job for Americans by stimulating the export trade of U. S. A. after the war. One wishes that this could have dawned earlier on those who controlled in the past the destinies of India and the Eastern world.

4. We should not therefore hesitate to welcome such profitable international economic intercourse but lest it may become one-sided and injurious to national interest it must be subject to important safeguards. Unfortunately, in economics and politics, it is easier to lay down safeguards than to enforce them in actual practice. It is true, international trade, when free from artificial controls and restrictions, governed as it is by competitive costs, benefits *absolutely* all parties, but the *relative* benefit of each participating country depends on its comparative level of wage income. Since the levels of wages of India, China and South East Asia are about the lowest in the whole world and British and American wages are the highest, it follows that India, China and South East Asia get the least benefit from foreign trade, while U. S. A. and Great Britain receive the greatest. The proportion between the advantages of a rich and poor country participating in a common trade roughly corresponds to the proportion between the wage levels. The war has only made us too familiar with this truth, when we see daily that the labour of one American has the same international value as the labour of 20 to 30 Indians. And thus, as in a capitalistic society, the poor get relatively poorer and the rich get richer. Indians and Chinese, who started on a level if not higher than the English and the Americans in the 17th century, have become in course of time relatively poorer, in spite of the undoubted benefits of international exchange. The effects of such poverty become cumulative unless a supreme effort is made to break the vicious circle.

This supreme effort was made by Russia in the face of European and American opposition. I trust India and China will be allowed to make such efforts with the world's sympathy and support in their own as well as the world's interests.

5. If this view is conceded, the world's wealth can best be maximised by looking at the problem more from the Asiatic and African end and less from the European and American end as it has hitherto been done. In London, its East End needs and receives greater assistance than the West End and in the war devastated or pre war depressed England, the derelict areas receive a higher priority in attention. The area from Peking to Colombo and from Karachi to Bali in Java contains half the human race (abut 1000 millions) living amidst conditions of inconceivable squalor and penury and deserves to be called the East End of the World In order that the *whole* world may live above want, this region deserves to receive every kind of assistance—financial, technical and moral from the rest of the world. The poverty of India, in spite of its palaces requires no overstatement to prove it. In the prevailing scarcity, Mr. Kirby, the Government of India Food Expert has admitted in an A. I. R. broadcast that the ration sanctioned by him supplies only 1600 calories against the normal man's requirements of 2500 calories. Similar remarks apply more or less to the other tropical and semi-tropical peoples of Asia and Africa. It is to the direct interest of the post-war export trade of the United Nations, particularly U. S. A. and Great Britain to set up an International Development Fund from which subsidies to these areas for milk, food, medicines, agriculture, education and industries may be granted to raise their standard of living and production. To the aboriginal Africans, these subsidies should be outright grants but the self-respecting civilised nations of Asia do not want any charity but only the means to set themselves on their own feet. They should therefore receive only loans in cash and kind. In other words, Lease and Lend facilities begun for war, should be continued in peace for the more laudable objects of the New World War against disease, ignorance and poverty. So far at least as U. S. A. is concerned, there are precedents for such generosity informed by self-interest. By utilising the Boxar Indemnityfor educating Chinese youths in America, the U. S. A. has captured the undying good will and the huge market of China against the blandishments of their British and Japanese rivals. They have won British sympathy in their march towards world supremacy by making an involuntary gift of their Great War loans to Great Britain and it is presumed that the Lease and Lend Loans will also be similarly written off. It is natural for Americans who have migrated from different parts

of Europe to think of its inhabitants first in their programme for relief and aid, but no great economic reasoning is required to prove that the world's wealth and welfare will be increased *most* by helping the poorest more than the less poor, irrespective of race, colour and religion. Such aid will not be beyond the capacity of U. S. A. alone even if Great Britain is unwilling to help for any domestic reasons. The expenditure on the whole Bombay Plan spread over 15 years is estimated to be 33 billion dollars which is much less than half the present annual national income of the United States or $\frac{1}{8}$ of its total war expenditure up-to-date. This should obviate the excessive dependance of the success of the Bombay Plan on such doubtful expedients as 'created money' etc. It must not be forgotten that all countries in the past U. S. A., Germany, Austria, Hungary and Poland and, even, Russia (after the Great War) built up their internal economies by hard work at home and international assistance from abroad.

6. Loans and subsidies from outside necessarily imply a guarantee from India and other assisted countries that they would be spent productively and efficiently. For this purpose, extensive social, economic and political adjustments on the part of the borrowing country would be necessary. For instance, India cannot obviously claim such assistance from the World Economic Authority, which will roughly be the counterpart in the economic sphere, of the World Security Organisation, if it continues to be economically divided into and governed by 600 Indian States, eleven provincial nations (I use the word 'nations' advisedly because the self-governing provinces, even under subordinate governors behaved in 1943, and do behave even now, in the matter of food supplies, as if they were independent nations and infected their District Collectors and Sub-divisional Magistrates with the same narrow spirit) and a varying number of communities trying to carve India into different '*Sthans*'. Such anachronisms exist only in India and Arabia (they have been wiped out by the war in China) and will not, and should not survive, if India is to make any progress in the new World Political and Economic Order. To make agriculture solvent and industries fruitful, some other obvious social and economic adjustments, such as the abrogation of the Permanent Settlement a compulsory national service will also have to be made and our national predilection for village economics will have to be modified. There is a price for foreign assistance and economic progress and that price cannot but be paid.

7. Against this attempt to maximise the world dividend for the common benefit of mankind by transferring or lending economic resources from the richer to the poorer parts of the

world, a fundamental objection can be urged. It will be argued that such transference from Europe and America to Asia and Africa, and particularly to India and China which owing to social and religious usage have a higher birth-rate, will be dissipated in a more rapid growth of their populations and will not therefore raise their standard of living. The Indian birth-rate of 37 per thousand appals the western observer and the addition of 5 millions to its population every year or 50 millions per decade, fills all planners, administrators and statesmen with anxiety almost amounting to despair. This argument, however, though sound, is not wholly conclusive. Past experience of all countries has proved that a rising standard of comfort has always been accompanied by a falling birth-rate. Indeed there is no other effective way of checking the growth of population than by administering a fatal dose of prosperity. Again as against this crowded corner of South and East Asia, there are vast spaces of thinly populated lands in Africa, South America and Australia which require considerable man power to develop their resources to the utmost for the common benefit of the world; and these, it is presumed, will be thrown open to immigration by Indians and Chinese by the World Economic Authority with such safeguards as the orderly economic growth of the world may require. In this article, it is presumed all along that the World Security Organisation will have taken precautions to remove all causes of war including the racial myths, the colour complex and the religious prejudice which shuts the door of the best parts of Africa, Australia and America in the face of all Asiatics in search of useful employment. If the World Organisation fails here where Russia has succeeded, the stage will be set for another war more fearful and destructive than the one which is drawing to its close. If the World Economic Authority really takes the whole world in its stride, irrespective of colour differences, it should have no difficulty in providing outlets for any surplus population which may exist during the transition period. But until these measures succeed, our obligation to the world and to our posterity to make a genuine effort to limit our numbers and to increase our productivity to the utmost will have to be honoured in word and deed. In return, we also trust that western nations will not give way to the temptation, as Great Britain, Germany and Italy are obviously doing, to raise the birth-rate for providing cannon fodder for the next war.

8. It is indeed necessary to scrutinise more closely this assumption about the neutrality, impartiality and the capacity of the World Economic Authority to enforce a just and wise economic order, specially when the present portents seem to be

unfavourable ; for, on this assumption depends the success of all international action whether prepared in London, New York or Moscow. The League of Nations and the International Labour Organisation failed, partly because they were not true to the idea implicit in their own being, and catered mainly for the European and American nations. International controls without adequate representation or control in the Council of Nations to India and the Muslim world (the Chunking Government at China cannot alone represent the whole of Asia and Africa) will reduce a majority of the world and the human race to a status not far removed from slavery, and it may be better, under certain circumstances, to do without such cooperation altogether. But it is presumed that, just as Germany will have been educated into a respect for law and international order, Great Britain, U. S. A. and the rest of the western world will have been re-educated up to the moral standard of Ashoka and the East and will have realised their great responsibilities for the economic betterment of the whole world, including themselves. In the absence of this self-education and self-introspection of the conquerors, the war will have been fought in vain and failed at least in its ostensible purpose. Whether the three great powers are willing or not, India on its own behalf and the Islamic world (she has the largest Muslim population within its borders) should claim an equality with France or China on the numerous international economic bodies which have been or are likely to be set up in the near future. One fifth of the world's population is entitled to something approximating to one fifth of representation, if history, tradition, strategic importance, moral pre-eminence, loyalty to the United Nations, present and potential wealth and not merely belligerent power are any criteria for representation.

9. Such representation will however be denied, if India does not speak and act as one. It may then be necessary to seek alternatives, such as cooperation with the British Commonwealth, China, Russia and the Islamic World, as life in this imperfect world is but a choice of the second best. A detailed discussion of these alternatives in and outside the British Commonwealth will take me beyond the scope of this paper which has become already too long and overloaded with assumptions which, however good in themselves, may not be realised in practice. I only wish to conclude with a sketch of the International Economic Organisation which I visualise as realising the economic co-operation outlined above. The International Security Organisation proposed to be set up after the war will not achieve any enduring peace unless it also sets up adequate machinery for solving the many international economic prob-

lems which arise from time to time. The International Monetary Fund and the International Bank, the U. N. R. R. A. are steps in the direction but they will prove inadequate like the old League of Nations and the I. L. O. because sectional rivalries are implicit in their constitution and functions. A higher vision, a willingness to subordinate the part to the whole without sacrificing the part or the whole world's welfare, require nothing less than a bicameral World Economic Parliament in which representation may be given in one chamber by population and in the other by the weighted interests of the great powers and special interests. An Executive Council with equal representation for the six great areas in which the contemporary world is divided *viz.* the American Commonwealth (including South and Central America), Europe (without Great Britain and Russia), the Russian Soviet Union (with some Baltic and Balkan States), the Sino Japanese Bloc, the Hindu Musim World (including Iran, Arabia, Turkey, Egypt, North and East Africa) and the British Empire (including West Africa and Australia). It will be seen that under this arrangement, everywhere except in the General Assembly, the American, European and British Empire groups will receive representation in excess of their population strength but, in my opinion they are entitled to have it owing to their economic, political and military importance, provided they do not dominate the rest of the world. If by this organisation, lasting international economic co-operation is achieved, Ashoka's immortal boast uttered 2200 years back and inscribed in imperishable stone and the yearning hearts of men "The reverberations of the war drums become the reverberations of the drum of the Law" will come true and this uneasy world will rest at last.

THE PROBLEM OF SOCIAL SECURITY IN INDIA

BY

PROFESSOR S. KESAVA IYENGAR

AN INDIAN BEVERIDGE PLAN ?

The question has been asked several times. Is an Indian Beveridge Plan possible and is it desirable ? Sir William Beveridge himself discussed the applicability of his scheme to India at the mike in the BBC. We might well begin this paper by saying that the problem of social security and its solution

are much more serious and urgent in India than in Britain or the U.S.A. The Beveridge Plan is not the corner-stone but the coping stone in the British social services edifice. According to Colin Clark the *per capita* income of the Canadian before the present war was between 1200 and 1300 dollars (pre-war average purchasing power) and according to two non-official estimates of *per capita* income in British India, the figure goes down to less than 25 dollars. This latter estimate was for 1931—32 (a depression year very far removed from present-day conditions) and the authors themselves do agree that the estimates are far from exhaustive or satisfactorily scientific. Even putting the present-day income per head in India at a liberal Rs. 150 (the *per capita* income in Sind for the year 1943 has been estimated at Rs. 200), this would be equal to about 50 dollars. Climatic conditions and Indian traditions justify the concept of a satisfactory *per capita* income at even half of the level in Canada, but to reach even that level, we would have to raise our national income per head by about 600 dollars, that is, twelve times the present figure. Concretely, our consumption level with regard to food, clothing, housing, education and health is at a hopelessly low level. We are deep on the minus side and our foremost problem should be to secure adequate amounts of supply to meet these fundamental requirements. The importance of distribution should come to the range of practical economics if and when our supplies are adequate. A dietetic authority like Dr. Aykroyd expressed his view, for example on the "grow more food campaign" in no unmistakable words. He said that this campaign should have been there long before the present war began, and should continue rigorously even for long after the cessation of the present war.

INDIGENOUS SOCIAL RELIEF IN INDIA

We have no social relief laws in India—except perhaps a few which were born dead or have long since been inoperative. How is it that with such a low standard of living, we were able to manage to exist as a nation? The first reason for the absence of social relief laws or even a rationalisation of existing philanthropic institutions and organisations, is that with the decay and death of our village organisations and the centralisations of all authority over matters big and small, this country has been having, at any rate economically, an 'interregnum' period (true, of a long duration). "Sufficient unto the day is the evil thereof" has been the psychology of all governmental bodies in India for a century and more : these have had neither the sanction nor the organisation to cope with such huge problems :

there have been agitations now and then against such arm-chair policy, to meet which these governmental bodies have usually hummed principles and proceeded to "fact-finding" : we have had one fact-finding committee on hand-loom weaving : we are now having another on famine !

The second reason for this country not having such legislation is that, in however rudimentary and empirical a way that might have worked, by culture and nature, we are a socialist-minded people. The joint-family system and the caste system—although dead as inelastic ties, are still there as powerful contributors to the solution of the problem : the caste sense and the joint-family sense are still there. Look at the stupendous charity pool of the Parsi community. In some form or other, temples and choultries did considerable public feeding, specially of travellers. The "Purnayya's choultries" of Mysore were functioning in Mysore till very recently from the beginning of the 19th century, which fed travelling brahmins without any limit, free. The Muslims are under a basic rule that a two and a half per cent of their incomes should be devoted to charitable purposes. In fact, *de facto* social relief in this country at the present moment, through indigenous ways, is so huge and valuable (although unorganized) that to neglect it or to allow it to decay should prove as unwise as neglecting or obliterating old roads or attempting to do away with the indigenous money-lender class.

"PLAYGROUND" AND "HOSPITAL" INSURANCE

Social insurance is of two kinds, communal and individualistic. The former type is generally of the "play-field" type while the latter is of the "hospital" type. That is so say, the former prevents or minimises the need for insurance of individuals. It is for this reason that practically every one of our plans for post-war development gives importance to items of public-utility. An adequate number of irrigation works and hydro-electric projects, and plentiful dairies should prevent, at least partly, failure of crops or emaciating feeding among the masses. Education and health should equip the masses to make the best of a given economic setting. The sale of essential articles of subsistence at subsidised prices should ensure, at least to some considerable extent, a healthy standard of life and absence of famishing. From this viewpoint, therefore, in any plan for post-war development in India, the ***consumption needs of the common man*** should be given the first priority : with the present risk level (of which we had recently an experience in

Bengal), unabated, any post-war planning should be somewhat like hallucination. Specifically, in food, clothing, housing, education and health programmes, we should place the common man's interests in the forefront. Elementary education, housing in villages, clothing (production of) that meets the demands of the masses, pure water for all inhabited localities—these should be the A.B.C. of post-war planning in India.

ORGANISATION AND DATA

The individual or the hospital type of insurance covers life, old age, education, marriage, maternity, sickness, unemployment and accident. These numerous kinds of insurance are as desirable in India as for example in Britain. The figures for the cost of such insurance in Britain during 1940—41 and 1941—42 are given in Annexure I. But we are lacking so much in elementary organisation and date that it would be like building castles in the air to proceed in these directions without the necessary organisation and figures. For example, there are in this country a large number of gins (cotton) in the interior beyond the knowledge and reach of the authorities concerned. How could we think of providing relief to the gin-worker if we did not know how many gins we had and where ? Thus, quite unavoidably, we have to wait for securing an adequate organisation on the basis of a national government, which in turn will soon arrange for the vital figures.

SHOULD WE WAIT ? CAN WE AFFORD ?

Not that nothing should be done till the golden age. Among the first steps to be taken are the passing of a minimum wage act, the universalisation of endowment insurance at a minimum of Rs. 1,000 per family through a Government Insurance Department for the public, the organisation of deposit insurance, and the provision of other varieties of social insurance through a Central Multi-Purpose Insurance Corporation. Can we afford it ? There cannot be two opinions on this question. As the *Economist* put it, how far the national income could afford it, depended on what use you made of it.* It is a question of what priority one attaches to this problem of social relief.

* Actually, the problem is not a financial one at all. It is a physical one. Can the resources, the goods and services, be made available to ensure a national minimum of consumption for every individual and every family whatever may befall them ? And the answer is that, if priority is given to this object in the distribution of the real national income, it can be done, provided the measures adopted to achieve it do not, by their effect upon national economic life, reduce

AMONG THE FIRST STEPS

A minimum wage act should be put on the statute book at the Centre, the administration being in the hands of local boards to determine minimum wages for different occupations from time to time, and this should be based on a stable currency. Governments in India might have even to go so far as to subsidise such occupations as could not pay the minimum wages fixed by local boards, as a transitory measure. Of course, this legislation should include the huge numbers of agricultural labourers. The woeful conditions of landless agricultural tenants and labourers are dealt with in Annexure II.

It is now over twenty-five years that the Mysore Government Insurance Department opened its Public Branch. It is open to any Mysorean to take out a life or endowment policy from that Department. Large funds of this Department are with the Government in their cash balances (thus helping the Government capital programmes), for a score of years that Department has been declaring a bonus of two per cent. per annum on policy amounts, and numerous people are eking out their livelihood by working as " helpers " in securing business for that Department. The experience of the Mysore Insurance Department should prove of great value to all other Indian States and British Indian Provinces. Estimating the number of families in India at a hundred million, and providing a minimum insurance of Rs. 1000 per family, we arrive at the minimum target of Rs. 10,000 crores worth policies! With non-forfeiture clauses (introduced in the Mysore State) and arrangements for loans for residential house-building, and

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the national income available for distribution. There is no reason to suppose from the measures recommended by Sir William Beveridge or from the sums involved, that these consequences are likely; indeed, the Beveridge Plan is more likely to have the contrary effect of helping to maintain the national income at a high level by keeping consumption high through good years and bad.

What we can afford in total, in terms of goods and services, depends upon the size of the national income, which itself depends on what we do with it, upon the way in which it is distributed and used. The prime needs are a rate of investment large enough and regular enough to maintain high employment; the highest possible level of productivity and technical efficiency in manufacture and distribution; and the utmost possible enterprise and adaptability. Manufacturing and exports costs can be reduced infinitely more after the war by an increase in efficiency and a decrease in restrictive practices than they can possibly be increased even in money terms, by the Beveridge and other plans... ....This will call for an assault on monopoly and quasi-monopoly; and equally, for some revision of the craft practices in Trade Unionism which impede the movement of labour from one occupation to another in accordance with the needs of adjustment.

redemption from prior debt, these policies should prove highly beneficial. The minimum wage act should give due consideration for the premium due on account of the minimum home policy.

The F.D.I.C. (The Federal Deposit Insurance Corporation) does insure deposits in banks upto a maximum in each case. It has been calculated that if the Federal Government in the U.S.A. had borne all losses on account of bank failures in that country, (thus paying every depositor in full), the total burden should have been 2000 million dollars involving an annual interest charge of 20 million dollars—quite a drop in the hundred billion budget of that country these days! In India, the bulk of small savers are on the border line and cannot survive any collapses of banks. In this matter also, the Central Government should move immediately and arrange for a Central Corporation to function either under the auspices of the Reserve Bank of India or independently.

For the rest of social insurance, as a measure to start with, a central multi-purpose insurance corporation should be started early, with Government advice, control and supervision, after getting the necessary personnel adequately trained for the purpose. Such an organisation should mean so much scope for Indian capital, Indian talent and labour, adjustment of finances as amongst the different branches of insurance and finally with Government funds, and the retention of profits earned in the country. It is estimated that in the year 1937, Indian investments of non-Indian Insurance Companies amounted to Rs. 49 crores.

Lastly, any steps taken for the insurance of a national minimum must of course go hand in hand with a national maximum. This policy of President Roosevelt was rejected by the American Congress, but the Indians are capable of a broader judgment—in view of their traditions and more in view of the yoke under which *all* suffered for so long in common. A maximum of Rs. 5000 per month, tax-free, is much above the Rs. 500 proposed and accepted by the Congress Ministers but anything more than that should be quite incompatible with a decent national minimum. Taxation should bite off any excess, and the absence of such excesses must mean better wages to labour or lower prices to the consumer.

"Sarve janaha sukhino bhavanthu
Samastha sanmangalani bhavanthu"

is the universal epilogue to every prayer among the Hindus in India. "May all be happy" is a model set for us ages ago. It

is our duty now to conserve our heritage and build on it methodically and quickly. But any scheme for post-war development which does not give first priority to the quickest possible raising of the standard of life of the common man (by providing adequately consumers' goods)* should be like Nero fiddling while Rome was burning.

ANNEXURE I

THE COST OF SOCIAL SERVICES IN BRITAIN.

Service	Cost in Million £. 1940-41	Cost in Million £. 1941-42.	No. of persons directly benefited. (Millions) 1940-41	No. of persons directly benefited. (Millions) 1941-42.
Unemployment Insurance & Assistance Acts—Unemployment benefit ...	26.244	9.064	...	...
Unemployment allowances. ...	15.389	5.657	...	...
National Health Insurance Acts. ...	38.087	46.132	22.282	23.017
Old Age Pensions Acts. ...	122.743	140.190	4.763	4.882
War Pensions Acts, etc. ...	41.451	49.041	1.039	1,284
Education Acts. ...	122.826	129.267	...	...
Public Health Acts. ...	27.353	27.621	...	...
Housing Acts. ...	54.217	54.561	...	...
Relief of the poor Acts. ...	49.141	48.745	1.289	1.263
Other ...	10.305	10.581	...	...
Total	507.756	520.859		

(Page 613, The *Economist* of May 6, 1944).

* The following telegram from New York dated 24-8-44 shows what results could be obtained by scientific planning in the matter of consumption goods :

"A phenomenal wartime glut of food has now reached a point where America is embarrassed by the possession of 8,000,000 cases of eggs, 130,000,000 pounds of frozen vegetables, 1,600,000,000 pounds of meat and poultry and 180,000,000 pounds of butter and cheese. The *Wall Street Journal* gives these figures in a survey and says that storage facilities all over America are overtaxed. Rural storage authorities have been ordered to reduce their holdings by 20 per cent to make way for new crops. The unprecedented surplus has accumulated after allocations for feeding 11½ millions armed forces and 15 per cent of food production to Lend-Lease and overseas relief programmes".

ANNEXURE II.

The following extracts from *Studies in Indian Rural Economics* (pp. 126-7) and *Economic Investigations in the Hyderabad States*, Volume III, (pp. 13 and 421-2) enumerate the kind of disabilities under which landless agricultural tenants and agricultural labourers suffer all over the country. These conditions were recorded over fifteen years ago. The Hyderabad and Mysore Governments have enacted laws and issued rules against such malpractices. Generally speaking, the rigour of such disabilities has been reduced all over the country on account of similar action by the authorities. But actual contact with rural life shows that the bulk of the problem is still there on account of the absence of an adequate machinery for strict enforcement of laws and rules, and want of education among these classes—in spite of the present-day spurt in agriculture.

Pp. 126-7, *Studies in Indian Rural Economics* :—

"While almost nothing is known with regard to the real wages got by agricultural coolies on private and small farms, the following typical case must throw some light on the weal and woe of this serf class in large estates. The employer makes an advance of Rs. 50 to the labourer: the labourer pays no interest, but is bound to the creditor so long as the debt lasts. He must labour for the lender whole-time at the undermentioned rations: two seers of the cheapest local corn (per day) with commensurate quantities of chillies, salt and tamarind; and one *duppatti* (sheet of cloth), one *jubba* (tunic), one knicker and one *kumbli* (blanket) per year. This contract implies eternal bondage and single blessedness for the worker: for the honest labourer working under such a contract the best ideal would be to maintain good health for the service of the master. In fact the very absurdity of the terms makes many a well-meaning borrower take the law into his own hand and break away from his merciless master.

On estates, the supply of labour is invariably the business of the recruiting agent, and the presence of a third party connotes more danger to the coolies. In almost all estates the general rate of remuneration to the labour agent is 5 per cent. by the planter (that is, 5 per cent. of the value of the work turned out by the coolies engaged through the concerned agent) and 10 per cent. of the coolie (that is, 10 per cent of the advance made by the planter for a coolie is swallowed, in most cases to the knowledge of the concerned coolie). Weekly wages are generally distributed by the planters through the respective labour agents, and while doing so they deduct instalments sufficient in amount to cover the advance made, in one season. Subtract this instalment and the slice claimed by the agent, it happens in lakhs of cases that the average wage got per week works at between 12 annas and one rupee net".

* * *

Page 13, *Economic Investigations in the Hyderabad State*, Volume III.
"The main features of the *bhagela* system ("jeethagadu" in Telugu) are :—

1. payment of remuneration is by the year in kind. If paid monthly, calculation is at a lower rate. In some cases food is given;
2. service is wholetime and includes any and every sort of work;
3. change from one master to another is considered immoral, and the master of an absconding *bhagela* thinks that he has got the legal right of compelling him to return to service under him;
4. generally some debt is due from the *bhagela* to the master, and on this debt no interest is charged;
5. most of these debts are for the marriages of the *bhagelas*, and in the northern and central villages, the prevalent idea is that children of a *bhagela* whose marriage expenses were accommodated by his master, should *ipso facto* be *bhagelas* of the same master;
6. when a *bhagela* dies, the debt due from him is automatically wiped off;
7. the grain, etc. or the food that is given as remuneration is less than equivalent to the minimum physical needs of low-class labourers, the bonus of two months' remuneration, tobacco, etc., appear to be rather exceptional at places like Kondur, and do not prevail at every village;
8. the master is looked upon as having the right to punish, starve or confine the *bhagela* for any offence of omission or commission ;
9. there is no written agreement of any sort; and
10. this institution has been in existence for a long time".

* * *

Pages 421-2, *Economic Investigations in the Hyderabad State*, Volume III.
"Interesting points which emanate from this printed form are enumerated below :—

(1) The landholder calls himself "Banjardar of Ahmednagar". He was, at the time the particular tenancy agreement was executed, banjardar of a portion of lands located in the Ammapalam village. By Thir 1339F., he is no longer a banjardar but an ordinary pattadar.

(2) This printed form is Form No. 39. What the other 38 or more forms are, is not known.

(3) The willingness of the tenant is assured in print.

(4) Failure to pay the tenancy dues in full within the specified time, authorises the landholder to directly take possession of the produce of the land and make good his dues.

(5) Interest is chargeable at 24 per cent. per year on defaulted dues.

(6) If the year's crop be not sufficient to meet the landholder's rent, the latter is authorised to "adjust the difference from other property" of the tenant. Other property of course includes both movables and immovables.

(7) Water from the Pakhal brook does not fail : the provision regarding exemption of the tenant from payment of rent in case of Government remitting wet assessment on account of shortage of rain, etc., is inoperative. Also, by agreement with Government, this land-

holder is responsible for maintaining the dam across the brook properly.

(8) "Expensive" improvements of land by the tenant involve no obligation on the landholder to pay cost. No kind of consideration is available to the tenant for any improvement of land made by him.

(9) No sub-tenancy or partnership is allowed without the permission of the landholder.

(10) Area of land is mentioned in "bigas" the proportion of which to acres is not established by rule. The areas of survey numbers is mentioned in acres and guntas in the village land records only.

(11) One bundle of hay per "biga" of wet land, and one bundle of *kudbi* (soppa) per plough used in cultivating the dry land, is to be paid by every tenant, over and above the tenancy dues agreed upon.

(12) In the tenancy attached, the tenant is made liable to pay the landholder (*a*) demand (*b*) local fund cess, and (*c*) other cess.

That is, he makes separate collections towards land revenue assessments proper, local fund cess proper, and other cesses if any".

CAN INDIA ADOPT BEVERIDGE ?

BY

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The conception of "freedom from want" received a definite shape in the Beveridge plan for social security with regard to the United Kingdom. The report has attracted immense interest and received a warm welcome throughout the world. Merely to have published such a report, it has rightly been remarked, has done a good deal to increase the prestige of England. Originating in the Elizabethan days, provision for the relief of social distress in different aspects has been steadily growing in England since particularly the close of the last century. The Beveridge Plan is a bold step in this evolution. But it cannot be characterised as remarkably revolutionary, at any rate in respect of England. The principle of social security has been increasingly recognised in that country by all the sections of opinions and though the Insurance Act of 1911 was adopted by the Liberals, the Labour and the Conservative have since introduced significant improvements. The Beveridge scheme is an outstanding advance, since, in place of unsatisfactory patch-works, it makes adequate provision against all major social evils on the basis of national minimum. The

whole scheme is conceived to work within the framework of capitalistic structure and attempts to rectify some of the unfortunate consequences of the system. This is definitely a bold stage in the evolution of the system operating in England, but there is nothing revolutionary in it.

Considered against the background of social policy in India, an all-in social security scheme, on the lines of Beveridge Plan, covering the entire population, will appear glaringly revolutionary. Existence of bare physical wants and tremendous inequalities of wealth can be no credit to any civilisation. Children's allowances, old age pensions and benefits for the sick and the unemployed are only the preliminary steps in the realisation of economic liberty. But the State in India has scarcely yet deviated from the traditional policy of laissez faire in this respect. The famine relief measures cannot be described as ensuring social security; these are measures of humanitarian relief meted out to actually starving population, in the event of acute shortage of food over a considerable area. The workmen's compensation and maternity benefit cover only a minor part of the distress of the industrial worker, which again is only a small section of India's population. Social security for the people of India has not yet been adopted as the objective of State Policy. Steps taken recently by the Government of India to have a health Insurance scheme prepared for this country is an encouraging augury. A comprehensive social security scheme on the Beveridge lines will nevertheless be something revolutionary for India. The whole policy and attitude of the State have to be reorientated in order that the principle underlying the scheme may secure acceptance as a part of active policy.

The criticisms of the Beveridge Plan have been merely of trivial character. The major opposition has been whether England can afford Beveridge. This is an irrelevant and ill-conceived issue. Beveridge himself replied to this in a broadcast talk. It is "like the schoolboy question, 'Have you left off beating your mother ?' It assumes something that is not true: it assumes that wise distribution of your income costs anything."[1] The feasibility of the scheme does not depend on the available resources since it does not reduce the resources, but merely ensures a more equitable distribution of income, without diminishing aggregate consumption. England has far more than enough to provide all the bread that is necessary, and some cakes as well.[2] It has been estimated that the unified social services on the Beveridge model will imply, when the

[1]From the *Hindusthan Standard*, Nov. 21, 1943.
[2]*Ibid.*

peak is reached twenty years after, a redistribution of 10% of the national income, assuming this to increase at the rate of 1½% a year. Even if the national income remains stationary all these years, it will mean a redistribution of 12% of the total income.[1] 'Every social survey of the period between the two wars showed that in the areas surveyed, there was a great deal more income in the working class households alone, than would have been needed to bring everybody to a tolerable minimum standard of living, if it had been evenly shared out.'[2] Even considering the problem from the narrowest point of view of the budget of the central Government, financing of the plan is not of any considerable significance. The central Government's revenue was £870 millions in 1937-38. The size has increased more than threefold during the war. The Beveridge Plan necessitates a bill only for £86 millions at the outset and it does not stand much to reason that the country cannot afford this amount by way of taxes. It is thus absolutely of no relevance to raise the question whether Great Britain can afford Beveridge.

Can India afford to have such comprehensive provision for social security on the Beveridge lines? This is a question of immense proportions for India. Provision of economic minimum must include not only necessary food, clothing and shelter, but also universal elementary education and adequate medical facilities. The sick, the old and the unemployed must be looked after and the State has to bear the responsibility for providing necessary opportunities for the development of every child. Nobody to-day can seriously think of raising any opposition against such a social policy. Economic minimum is not a static concept, unalterable for all times to come. Its scope is ever-widening with the economic progress of the community. But what has been stated above is the 'minimum' to the concept of economic minimum.

On the basis of this minimum, every Indian must be assured of the necessary amount of food of the requisite quality. Nutrition experts have suggested a certain assortment of food materials to give an energy value of 2600 calories per day to an adult, that is necessary for him. Making allowance for some wastage, the per capita requirement of balanced diet would amount to 2800 calories per day.[3] The Bombay planners estimate that this would require Rs. 65 per annum for an adult and not very much less for a growing child.[4] Looking at the list of food

[1]Barbara Wootan, *Political Quarterly*, Oct.-Dec. 1943.

[2]Cole-Beveridge Explained, p. 60.

[3]Bombay Plan, p. 8.

[4]*Ibid.* price, pre-war basis.

materials necessary to provide the balanced diet, Rs. 65 per annum would appear to be a very modest estimate. Even so, it may be adopted as the average per capita annual requirement for the population of India.

With regard to the national dividend of India, Dr. V. K. R. V. Rao's estimate may be adopted as the basis. According to his estimate for 1931-32, the per capita income in British India did not exceed Rs. 65 per annum. The all-India average is likely to be smaller. Since then India' s population has been rapidly increasing, but there is no evidence of any significant economic advance during the period. Rs. 65 a year per head (on the pre-war price basis) will therefore be rather a liberal estimate at the present. Even so, it is evident that the total income of India may just, if at all, be sufficient to provide the barest food requirements for the people of India. Want in the case of England is a needless scandal, which can easily be avoided by proper distribution. But in the case of India the national income is perhaps barely sufficient to cover just one, though the major, item of the economic minimum. It follows then that the immediate problem for India is to expand production, otherwise provision of economic minimum will remain a mere idle talk. India simply cannot afford to accommodate Beveridge at the present level of her production.

An expanded production on a definite plan must precede any considerable provision of social security for the people of India. Even the Beveridge scheme postulates a policy of "full employment" for England. If the plan has to be adopted in full, human resources cannot be allowed to be wasted. England must adopt measures of economic planning which are essential for full employment. Unemployment may arise out of temporary disequilibrium in the adjustment to the changing technique and for this the plan makes necessary provision. Thus even for England a planned production is essential for providing comprehensive social security. In the case of India, where the volume of income is exceedingly deficient, an all-in provision of social security is an impossibility. A planned all-round production is necessarily of primary importance for India, before economic minimum for all becomes a practicable issue.

India imports food stuff and textiles to feed and clothe her people. It is not advocated that her economy should be completely self-contained. But a richly endowed predominantly agricultural country and the second largest producer of raw

cotton should produce all the food and cotton piecegoods required by her people. This must be the objective of any plan for economic development of India.

The Bombay Plan estimates that the necessary food, clothing, shelter, education and medical facilities can be provided at a per capita cost of Rs. 74 per annum. This certainly does not mean that if the per capita income of India increases to Rs. 74 a year, it will be possible to provide comprehensive social security for all. The Beveridge Plan is contemplated to work under capitalistic framework. From the criticisms levelled against the scheme, it is evident that capitalism does not take it easy to distribute even 10% of the national income for the social security for all. It has been shown that if India's total income expands to Rs. 74 per head a year, the whole income has to be utilised for securing social security. This is an impossible proposition under capitalism. No economic system can afford to exhaust its entire income to provide economic minimum, stifling thereby all economic progress It is unlikely that capitalism will stand the distribution of as much as even 25% of the national income of India. Even then, unless the national income expands to Rs. 296 per head, *i.e.*, more than four and a half times the present income, there does not seem any possibility of applying a plan to India on the Beveridge model. The Bombay Plan contemplates only doubling the national income of India in fifteen years' time. Even then it will not be practicable to provide economic minimum for all. The plan is unfortunately silent about the distribution of the expanded income, though it promises at the outset to work out this aspect in a subsequent volume. A large portion of the aggregate income of the country may be distributed to secure comprehensive social security, only if the State takes up the control and management of the relevant productive operations. The present level of national income, the probable expansion in the volume of production, at any rate for some years to come and the teeming population of India necessitate more and more of State interference and control in the production of national income. With regard to the question of administration as also the role of the State, the Bombay Plan is again equally silent. It is therefore not unusual for some people to read in the plan a mere extended capitalistic development.

It should not be inferred from this that social security for India should only be thought of when the volume of production has reached the requisite level. Provision of social security will itself go a long way in increasing productivity. India has to build on the experiences of other countries and not pass through all

their errors and experiments. It is not possible at this stage to introduce an all-in scheme, but along with the measures to expand production social security should also be extended. Sir William Beveridge suggested that India should begin by applying social insurance where England began, *i.e.*, to sickness—to providing treatment for sickness and an income during sickness. Beveridge insisted that his plan for England must be treated as an indivisible whole. But with the existing income, only a humble beginning is practicable in India, and sickness insurance is the most desirable and feasible beginning.

Security against sickness necessitates *firstly*, as the Bombay Plan contemplates (a) proper arrangement in respect of sanitation and water supply, (b) a dispensary for every village, (c) general hospitals and maternity clinics in towns and (d) facilities for special treatments in towns. These need an initial cost of Rs. 281 crores and a recurring expenditure of Rs. 185 crores. These India can easily afford. There must, *in the second place*, be provided a certain income during sickness calculated on the basis of the person's earnings and the dependants. The allowance should be so designed that the person should not prefer remaining sick to continuing in normal employment. As a beginning, though modest, it will mean a significant step forward within the present economic system.

It is sometimes contended that the black-out with regard to statistics in India will be a great obstacle in the working of any such scheme. This certainly is a great hinderance, but an attempt to work out a scheme will itself open out possibilities of making statistics available. The rationing and price control during the war are adequate evidences thereof.

Sickness insurance by itself will not be enough even at the outset. India can afford more. Universalisation of primary education, according to the Bombay Plan, will need an annual expenditure of Rs. 88 crores. It is feasible to provide extended facilities in this respect as well. A comprehensive programme on Beveridge model cannot be forthwith adopted, but the programme should be extended as a companion to the expansion of production.

According to the Beveridge scheme, the social security fund has to be created by contributions from the State, the employers and the employees. Can the Indian industries at the present stage of their development stand the burden ? Such opposition was voiced at the time of the introduction of Factory Acts, but subsequent results belied the apprehension. It is true that such a contribution will be a tax on industries for the purpose. An immediate all-in programme of social

security may make the burden heavy, but gradual extension will not impose any appreciable burden. It is necessary, as long as capitalism lasts, that the capitalist shall bear a legitimate share in the responsibility for providing social security. Further, in the case of India, where agriculture is the dominant occupation, landowners with incomes over a certain limit should also make a special contribution for financing the scheme.

The Beveridge Plan also contemplates that the labourer shall make a contribution for insuring against social risks. In New Zealand, no such contribution is realised from them. The contribution has a great moral value. In India, where a large number of people still delight in their dependence on charity, a compulsory contribution will make a substantial advance in attitude, by making the people feel that the benefits are obtained as a matter of right. On the other hand, it is a very disquieting feature that begging is sometimes more lucrative and perhaps more respectable than labour in the fields or teachership in a primary school. In some cities in India 60 to 70% of the beggars are able-bodied. In view of this and the exceedingly low wages, it is difficult to realise contributions from wage earners. Under the present circumstances there is scarcely any escape from low wages. In many places, cultivation is carried on because the labour of the farmer and the members of the family is not accounted as a part of the cost. It is essential that the method of cultivation should sufficiently be improved to make higher wages possible. And attempts should be made to realise a small contribution not with a view to financing the scheme but making the payer have self-respect in obtaining the benefit.

Along with the provisions for social security, the institutions regarding production in India need from the outset a thorough remodelling and on that depends to a large extent the improvement in the standard of living of the people. The antiquated and uneconomic system of land tenure needs replacement; usury has not yet been liquidated; the immense possibilities of co-operatives have not yet been tapped. The People's Plan rightly emphasizes this aspect of the problem. Together with the attempts at social insurance, the productive institutions have to be reshaped for the welfare of the people.

SOCIAL SECURITY WITH SPECIAL REFERENCE TO INDIA

BY

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[The meaning of Social Security ; origin of the idea embodied in Bismark's State Socialism (1881-90) in Germany. In England it was the left-wing liberalism of Llyod George (1908-11) that was responsible for epoch-making legislation in this direction.

Social Insurance in India still in its infancy except for the Workmen's Compensation Act ; The draft convention of the League of Nations (1927) on sickness insurance as obligatory on all states was not ratified by the Government of India.

The scheme of Sir William Beveridge; Its application to India; Any scheme of social insurance presupposes certain fundamentals to be fulfilled before it can be successful; Even in the Western Countries the social security legislation had not been a complete success. The Economy of India is still primitive and even enlightened type of capitalism is not fully developed; Labourers are unorganised, the continuity of the labourer in the work he undertakes cannot be assured because of his migratory character, the income of the labourer is not such as would enable him to make a contribution to the 'insurance-fund'; Neither the employers nor the Government are at present in a position to finance the scheme in this country.

Economic planning should precede Social Security; The example of Soviet Russia.

In India a beginning might be made with agricultural insurance to provide cover for the agricultural labourer and crops—the basis of the scheme being Co-operative farming]

The idea of social security briefly is that the State shall make itself responsible for ensuring a minimum standard of material welfare to all its citizens, on a basis wide enough to cover all the main contingencies of life of an individual from birth to death. It includes security when a man is actively employed, as well as when he is unemployed or sick or destitute. A practical shape to this idea has been given in Soviet Russia though it had been lurking in the minds of people in all ages and all countries.

Islam imposes a levy on capital usually one part of forty, or 2½ per cent on the value of all goods, chattels, emblements, on profits of trade, mercantile business, etc.

But alms are due only when the property amounts to a certain value and has been in the possession of a person for one whole year.

The rightful recipients of the alms are (1) the poor and the indigent; (2) those who help in the collection of the obligatory alms, (3) slaves, who wish to buy their freedom and have not the means for so doing; (4) debtors who cannot pay their debts; (5) travellers and strangers (*The Spirit of Islam* by Rt. Hon'ble Syed Ameer Ali) It may be observed that this contribution is obligatory on every Muslim whose capital accumulation is above the minimum prescribed and is one of the fundamentals of his faith. Caliph Omer crystallised this fund by establishing a Baitulmal or a National Poor Fund out of which cash benefits could be given to the poor, the destitute, the widows and the orphans. According to some writers he went a step further in allowing allowances for children (*Alfarooq* by Shibli Nomani).

In the middle ages the monasteries had been the dispensers of relief to the destitute. With their abolition it became necessary for the State to provide some sort of substitute. From the time of Queen Elizabeth it had been recognised as the duty of the State to make provision against any citizen perishing from 'want'. The result was the 'Poor Law' renamed 'Public Assistance', financed out of rates levied locally and this still survives as a residuary service in Great Britain.

The Industrial Revolution brought in its wake social problems of great magnitude both in their extent and variety. It created a class of industrial workers who were voteless, ignorant, wretched and mercilessly overworked. It created mass unemployment by substituting child labour for adult labour. It led to overcrowding in factories which were not whitewashed for years together thus creating squalor and disease. Out of the prosperity which Industrial Revolution brought for the few in England grew a state of misery and insecurity for the many and this state of misery and insecurity moved at a much faster pace than the measures designed to allay it. Meanwhile the Industrial Revolution had slowly spread to France and Germany and a similar sequence of events followed there.

In this welter of squalor, inhumanity and physical cruelty modern socialism found its exponents. While factory legislation had been adopted in most of the countries, some tentative measures of social security also began to be tried piece-meal. Social Insurance as a humanitarian move had been embodied in Bismark's State Socialism (1881-90). In England it was the left-wing liberalism of Llyod George (1908-11) that was responsible for epoch-making legislation in this direction. Germany was the pioneer of sickness, invalidity and accident insurance and England was the pioneer of unemployment insurance though the National Insurance Act of 1911 in Great Britain had a wider

scope and included in its Preamble provision for the loss of work and prevention and cure of sickness besides unemployment. By the various National Insurance Acts passed from time to time till 1940 we had provision in Great Britain for Insurance against loss of health, for prevention and cure of sickness, compulsory insurance against unemployment, and pensions for widows and orphans and aged persons.

The scheme of social insurance had beena dopted in part in about 30 countries before the present war. Taking all the 30 countries together, 20 have compulsory sickness insurance, 24 have some kind of contributory pension, 8 have unemployment ansurance. (Report of Sir William Beveridge on Social Security and Allied Service).

Social Insurance in India is still in its infancy. In fact it is non-existent except for the Indian Workmen's Compensation Act, 1923 amended in 1934. The original Act applied to industries which were both organised and hazardous. The amended Act had a wider scope and applied to a number of additional industries which were organised but not necessarily hazardous. The amended Act adopted more liberal scales of payment than the original Act. The total compensation paid to workers in India in 1935 was a little over 11 lakhs of rupees—a very low figure as compared with over £ 6 millions paid in the United Kingdom in the same year.

As far back as 1927 the International Labour Conference held at Geneva adopted a draft convention on the subject of Sickness Insurance by imposing on the States an obligation to set up a system of compulsory Sickness Insurance. Article 11 of the first Draft convention applied to manual and nonmanual workers, including apprentices employed by industrial undertakings and commercial undertakings, out-workers and domestic servants.

The convention was not ratified by the Government of India, and sickness insurance never became a reality. India had to be content with only the Indian Workmen's Compensation Act, though other countries had travelled far ahead. After the present war all the countries will get busy with their programmes for economic reconstruction and a more liberal state action towards social security. Sir William Beveridge has already submitted a very comprehensive and ambitious scheme about Social Security and Allied Services for Great Britain.

. The proposed scheme of social security develops the existing British schemes in four directions. It unifies them while providing for variety of benefit and administration where differ-

ence is justified, it extends the scope of insurance to all citizens, it raises benefits to subsistence level and makes them adequate in time, it gives new benefits. The system provides a flat rate of benefit not varying with the earnings that have been lost.

The fundamental assumptions A, B, C, of the plan are :—

A—Children's allowances

B—Health and rehabilitation services

C—Maintenance of Employment

It is a scheme of social insurance against interruption and destruction of earning power and for special expenditure arising at birth, marriage or death.

In relation to social security the population falls into four main classes of working age and two others below and above working age respectively as follows :—

I. Employees, that is, persons whose normal occupation is employment under contract of service.

II. Others gainfully occupied including employees, traders and independent workers of all kinds.

III. House-wives, that is married women of working age.

IV. Others of working age not gainfully employed.

V. Below working age.

VI. Retired above working age.

The sixth (*i. e.* above working age) will receive retirement pensions and the fifth will be covered by children's allowances which will be paid from National exchequer in respect of all children when the responsible parent is in receipt of insurance benefit or pension. The other four classes will be insured for security appropriate to their circumstances. All classes will be covered for comprehensive medical treatment and rehabilitation and funeral expenses.

The plan extends far beyond the existing range of the Social Insurance and Assistance Services and touches at one point or another every man, woman and child in Great Britain.

The gross cost of the social security plan is estimated at £697 millions in 1945 and £858 millions in 1965, when the new pension plan will come into force. The sources of income to finance the plan will be:

(*a*) National exchequer, that is to say, the citizens in their capacity as tax-payers.

(*b*) The prospective recipients of payment under the scheme, that is to say the citizens in their capacity as insured persons.

(c) The employers of Insured persons.

This scheme has aroused a good deal of interest and thoughtful minds are beginning to enquire whether a like scheme or any other modified scheme will be applicable to India.

Any scheme of social insurance pre-supposes certain fundamentals to be fulfilled before one can think of its success.

Even in the case of Western Countries the tentative and halting measures of social insurance adopted from time to time had not been an unqualified success. The National Health Insurance Act in Great Britain was the most ambitious piece of public health legislation ever carried through in that country. No previous measure had directly affected so large a number of persons, involved so great a cost, made such demands upon administration and been introduced with such lavish promises of benefit to follow.

According to the report of the Fabian Society it had been a 'conspicuous failure.' "By insurance premium the State is abstracting from each of their cupboards one loaf of bread a week thereby starving them still further into illness, in order to pay for their doctoring and sickness benefit during the illness which the State has thus helped to create." (*Facts and Fallacies of Compulsory Health Insurance* by Frederick L. Hoffman, page 65). The report further observes that the uniform deduction from the wages of well-paid and ill-paid workers alike, the bad economies of this virtual poll-tax on wages, the exclusion of the home-keeping wife and children not yet in employment, the arrears of frequently unemployed, the special hardship on the casual labourer, the labour card-cataloguing and costly registration, the army of clerks engaged in entirely useless work—all these evils could be most easily remedied by putting the Insurance medical service on the same footing as the rest of the Health medical service.

That the observations are correct can be seen from the fact that these defects have now been removed in the proposed scheme by the provision of a comprehensive public medical service for the entire population, including specialist services, hospital and other institutional treatment and through rehabilitation whenever it is needed in what Sir William Beveridge calls 'Assumption B' of the plan. But this is being proposed to be done now after an experimentation of over a quarter of a century and a good deal of waste of public money and consequent hardship to the casual labourer.

In Germany also the system of sickness insurance was a failure even in the direction in which it had been anticipated

it would be most successful. The amounts paid out in the form of relief, according to Frederick Hoffman, Vice-president and Statistician of the Prudential Insurance.

Company (?) of American, were, broadly speaking inadequate or insufficient to provide the workman concerned or his family with the required degree of economic security common to the people of the country. The primary purpose of the establishment of compulsory social insurance, according to the same authority, in these countries was to hinder the rise, curtail the powers and ultimately destroy the socialistic movement.

Coming to India we find that its economy is still primitive and even enlightened type of capitalism has not very much developed. Any scheme of social insurance must take into account the following pre-requisites existing in a country :—

1. Whether labourers working in factories are *bonafide* members of any trade union.

2. The continuity of the labourer in the work he undertakes *i.e.*, whether he takes it as a source of permanent income or shows a tendency of migration.

3. Whether this income of labourers is such as would enable them to be in a position to make a contribution to the insurance scheme.

4. Whether a sufficient ground is prepared in the minds of labourers about the advisability and importance of the scheme; if not what should be done.

5. Let us answer each of these questions one by one.

(*i*) The total number of workers in the organised industries in the Bombay Presidency excluding Sind was 500,000 in 1936 and the total membership of trade unions then existing in the Presidency was 88,191.

This shows that more than 80% of the labourers working in organised industries do not belong to trade-union organisation. Many of them cannot afford to pay regular subscriptions to their trade-union and fall out. Those, who do, pay only small amounts out of which it is difficult to hold out any permanent benefits.

(*ii*) So far as the continuity of labourers in a permanent job is concerned the following quotation from the report of the Royal Commission on Indian Labour deserves consideration.

"The constant changing of the labour force in individual establishments which is associated with the present system carries with series of disadvantages from the point of view both of the management and of the worker.

It necessitates a continuous turn-over of the employees, many of whom may be entirely new to the factory, its machines and methods of working with a consequent loss of efficiency which reacts on both parties. It is also a serious obstacle in the way of establishing contact between employer and employed and of building up the sense of Co-operation.

The Bombay Census Report also points to the same conclusion. The following table shows the number of substitutes appointed in temporary vacancies in the Cotton Textile Industry.

Area	No. of Units	No. of employed workers.	Substitute employment. No. appointed in substitute.	Substitute employment. Percentage of total number employed
Bombay City	84	1,26,735	35,211	27·78
Bombay suburban	7	6,279	236	3·76
Ahmedabad City	95	83,819	17,713	21·13
Sholapur City	5	17,855	5,705	31·95
Sholapur and Satera	4	2,091	807	38·59

In the city mill areas the substitute employment ranges between 38 to 21 per cent and in the suburbs 3·76. Much of the labour in big towns is drawn from the villages and the labourers take it as an occupation to fill up the gap between one harvesting season and the other. The amenities of village life—open space and plenty of breeze in an open atmosphere—suit him much better than the life in a crowded town where he has to carry on in a cramped atmosphere with little or no accommodation and often sleeping on the pavements.

(*iii*) The question whether or not a labourer would be able to make contribution to the insurance fund may be judged from his pecuniary aspect as revealed by the following table :—

TABLE SHOWING FIGURES OF INCOME AND EXPENDITURE OF THE WORKERS IN INDIA.*

Town or city.	Average monthly Income. Rs.	as.	p.	Average total expenditure of one man, one woman and two children Rs.	as.	p.
Nagpur	23	13	8	27	9	10
Jubbulpore	22	1	3	24	13	3
Cawnpore	25	8	6	24	14	10
Lucknow	23	10	0	23	8	3
Gorakhpur	24	3	2	28	15	5
Sholapur	26	10	2	37	13	11
Ahmedabad	38	4	0	39	5	8

* S. U. Parulekar, *Social Insurance Industrial Workers in India.*

In the absence of a minimum wage legislation in this country a compulsory and contributing scheme of social insurance is unthinkable.

(*iv*) Whether a sufficient ground is prepared in the minds of the labourers about the advisability and importance of the scheme.

In India on account of the colossal illiteracy of the labourers any scheme of social insurance would have a doubtful success. The Tata Mills at Bombay have the sickness insurance scheme in operation. And it is stated that 35 out of 2,000 labourers had joined the scheme up till 1938. Compulsory free education and a good deal of educational propaganda in favour of social insurance scheme has got to be carried before the scheme is brought into operation. In Japan the Bureau of Social Affairs organised lectures in favour of sickness insurance in industrial centres before the scheme was introduced.

For most of the information given above about the industrial labourer I have depended on the Social Science Intelligence series issued by the Indian Merchants' Chamber, Bombay.

The points which emerge from the above discussion may be briefly summarised as follows:—

(*a*) The labourers in India are not organised in the sense that 80 p.c. do not belong to any trade union.

(*b*) The labour is migratory in the sense that roughly 33% of that total workers in the permanent muster is migratory labour.

(*c*) There being no minimum wage legislation, the level of wages is such that labourers are not in a position to contribute to an insurance fund.

(3) On account of their colossal illiteracy it is doubtful whether they would willingly co-operate with any such scheme. Now let us look at the question from the standpoint of the employers.

There is no system of uniformity followed in the various countries in so far as the share of employers is concerned. Employers in England and Wales contribute to the scheme on a basis of flat rate while in the case of Germany, Italy, Australia and Japan the basis of contribution is on the principle of basic wage-level. Now the question is whether employers in India should and can contribute and if so at what rate ?

That they should nobody will deny and whether they can depends upon a number of factors—the most important being the productivity of the labourer to the total output relatively to the

wages received. The following table in this connection will be of considerable interest—

TABLE SHOWING THE WAGES AND PRODUCTION OF COTTON LABOUR BY COUNTRIES (*Herald of Asia 23-3-38*)

Bombay Merchants' Chamber (Social Science Intelligence series).

Country.	Production per hour per head (pounds).	Wages per head per pound of production (pence).
Japan	3·1	0·53
Britain	4·5	2·20
U. S. A.	5·6	3·33
India	1·0	2·43
Holland	3·2	2·84
Switzerland	3·4	3·49
Germany	4·3	2·91
Italy	3·3	2·89

The table shows that the productivity of an Indian labourer is less than one-fourth of a corresponding worker in Great Britain but the relative wage *i.e.*, relative to production is slightly higher in the case of an Indian worker.

This disparity will be levelled up in the long run when the Indian labourer is educated and is given up-to-date machinery to work on ; the basis of contribution will then be a difficulty of the past. At present, however it does exist.

As regards contribution from the State, the problem has got its own limitations. It involves the question of citizens in their capacity as tax-payers. The taxable capacity of the people has already reached its limit. Though the revenue per head is lowest in India the percentage of revenue to national income is the highest of all the progressive countries of the world except the United Kingdom, France and Italy. See the table* given below :—

Country	Revenue per head £	Percentage of Revenue to National income.
United Kingdom	17·5	23·1
U. S. A.	12·2	11·5
France	8·8	21·7
Germany	3·5	9·3
Italy	4·2	18·1
Australia	11·1	11·4
Canada	6·6	5·6
India	0·6	13·8

* Dr. P. J. Thomas, *Growth of Federal Finance* page 430.

The percentage of revenue to national income in this country is higher than U. S. A., Germany, Australia and Canada.

When the draft convention of the League of Nations on Sickness Insurance was under the consideration of the Government of India the various provincial governments maintained studious silence as regards their contribution.

The Bombay Government while pointing out the difficulties for the successful operation of sickness as it is understood and worked in the United Kingdom and other foreign countries suggested that the best method of approach would be to combine sick leave with holidays with pay.

From what has been said above it will be obvious that any scheme of social insurance for the industrial worker would be premature in this country because of the unorganised and migratory character of labourer, the absence of a minimum wage legislation, the inability of the employers and the Government to contribute to the scheme.

In fact, no scheme of social insurance in any country can be successful without a comprehensive scheme of economic planning for production and distribution. The focal point of social insurance is full employment and maintenance of a stable level of decent income. The Beveridge Report also suffers from the defect that it has not discussed the steps necessary to ensure full employment, including the entire problem of "economic planning" and the relations which are to exist after the war between the state, industry and the financial system.

These are matters which urgently need settling in advance. The discussion of these questions would have meant covering a wide range of questions which were not submitted to the Beveridge committee but should be regarded as necessary conditions for the success of the scheme.

While in all the other countries the social legislation had been a patch-work with 'holes here and there' Soviet Russia is the only country where the scheme works as a unified whole from the 'maternity home' to the 'grave-yard' and this is because Russia planned its production and distribution much ahead-before introducing social security. The liquidation of the landlord and the capitalist was complete whilst Lenin was a 'hunted fugitive.' The collective production both in agriculture and industry led the worker to believe that his own product to the total output belonged to the community of which he was a member. The benefits for accidents etc. or to widows, orphans and super-annuated are paid out of annual income of the community instead of a burden upon each individual or locality.

The issue raised according to Webbs is not a division of the surplus between profits and wages but merely the distribution of an agreed aggregate 'wage-fund' between what should be spent as, 'personal wages' and 'socialised wages'.

The socialised wages come to the workmen and their families in their special days of need. "Soviet Communism" makes the discovery that the community does not grow older year by year and therefore more liable to breakdown as each individual does, and with this fact so obscured by individualism, all necessity for the actuarial complications involved in the European and American Conception of Insurance simply disappears.

If we learn any lesson from the experience of other countries it is this that economic planning and full employment should precede any scheme of social security to make it a success. We might make a beginning in this country with agriculture which supports 69% of the entire population. A system of social security only confined to Industrial labour would cover only a small portion of the population and would not be comprehensive.

The idea of agricultural insurance may appear to be novel but it should suit the genius of this country. The following tentative suggestion for planning of agriculture and insurance of the worker can be offered which deserve consideration. A system of Co-operative farming on a national basis would perhaps be the best device to get over the difficulty of small holdings, which prove a serious obstacle to the improvement of Indian agriculture, and to introduce a system of agricultural insurance. These societies will work under the supervision of the Government and a village will be broken up into big plots of land exceeding over hundred acres. These plots can be taken over by the societies on long terms of lease for at least twenty years or so and worked with modern tractors and mechanical appliances in co-operation with the agricultural department. These societies should further be in touch with the marketing-boards to market their agricultural products and maintain a link with the central co-operative banks and depend on them for assistance from time to time. The famine insurance grant should be made available to them when necessary through the agricultural department of the Reserve Bank of India.

The ordinary cultivators should be employed as agricultural labourers who should be paid their wages partly in cash on monthly basis and partly in kind on a liberal system of rationing. The profits of the societies should be earmarked as social 'insurance-fund' for providing clean and well-ventilated houses

to the cultivators, a rural medical service, educational facilities for children and expenses for marriage and funeral.

These societies can also start rural industries to provide occupation for the cultivators in spare time. These industries might be of the ordinary factory type located in rural areas. Some typical industries may be mentioned :—

(1) Manufacture of agricultural implements

(2) Manufacture of paper pulp from bamboo in rural areas lying on the outskirts of forests.

(3) Poultry-rearing with possibilities in drying or preserving eggs for export or of manufacture of dried albumen.

(4) Preservation of fruits in air-tight tins in places where fruit-growing is a practical possibility.

(5) The hand-loom, pottery and rope-making industry. From the ordinary pottery of the village there is considerable room for the expansion of a trade in ornamental pottery by improvements in designs and in methods of glazing.

The list given above is not at all exhaustive but just indicates a line along which action can be taken.

The scheme will create incidental demand for employment in various administrative and clerical jobs and will solve to a considerable extent the unemployment problem—the normal feature of every capitalistic country.

Regarding insurance of agricultural crops Sir P. C. Ray suggested a scheme of insurance on an All India basis in July 1944 number of the *Insurance World.*

According to him 'human ingenuity is constantly striving to eliminate risks and what today appears to be incalculable may become calculable and hence insurable the next day'. The study of weather is in progress and meteorology, as a science, is developing its utility. The dependence of agriculture on the vagaries of monsoon is also being gradually reduced by extending irrigation works, which at present serve only about one-fifth of the total cultivated area.

Physical forces are generally considered to be better subject to uniformity than human volition. A scheme by districts or provinces is bound to be a failure because the same district or province is likely to have the same experience of rainfall or floods. If it is on an All-India basis the plenty of one province can be offset by the scarcity of another in a particular year and thus there will be no difficulties about averaging.

"Cover may be provided not against the risk of crop failure but failure of rains. If rainfall in a particular year does not amount to an agreed number of inches, the insurer will pay by way of compensation an amount varying with the extent of the deficiency." There may be similar arrangements to provide against floods and damage by insects.

"Such a scheme in spite of being comprehensive is not, however, likely to call forth any complicated administrative machinery, for, though the scope of the scheme would be large, the details are hoped to be not too many.'

This scheme coupled with scheme of co-operative farming outlined above can have a practical possibility of success. Various co-operative farming societies joining together on a group basis can go in for insurance.

Similarly a scheme of Economic planning for industrialisation whether based on the Bombay Plan or People's Plan is necessary and should be in operation before we can think of social security.

If we are to live as a community we must produce more. In the words of C. D. H. Cole "there is no way of giving the whole people a satisfactory minimum standard of living—not even if all the incomes of the rich were to be divided among the poor until there are comprehensive measures for ensuring a high and steady output of food and services." No plan of social security should be judged by itself until it is an essential part of a much widen plan of full employment, stable level of incomes and a steady stream of production both agricultural and industrial.

SOCIAL SECURITY WITH SPECIAL REFERENCE TO INDIA

BY

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The term "Social Security" is applied to any scheme which ensures freedom from want or security of income to all people. Sir William Beveridge published in 1942 his famous Report

which contains proposals for a system of compulsory and universal social insurance for the British Isles. The Beveridge Plan is a plan for the security of incomes for every man, woman and child in the community. All the contingencies of life and livelihood, birth, marriage, death, old age, unemployment, accident, illness and disease are covered by a single and comprehensive system of contribution and benefit under State auspices. The scheme covers all citizens without proper income limit and in its rates of benefit and grant is far more liberal than existing schemes. For example, the allowance for unemployment is raised from 38 sh. per week to 56 sh. a week. The period of grant is unlimited and without 'means test' at any time, subject only to the condition that there should be attendance at a training centre if unemployment is prolonged. The idea of "social security" includes security when a man is actively employed as well as when he is unemployed or sick or disabled.* The State, according to Sir William Beveridge, shall establish a National Minimum for all employed workers as well as for those in receipt of public grants. It is a necessary condition of the Beveridge Plan that all such wages shall be scaled up.

The ideal of social security has come to the forefront ever since President Roosevelt formulated his Four Freedoms. It was the subject-matter of several B. B. C. Broadcasts on India and the Four Freedoms. Of course, social security with reference to India, means something very different from what it means for countries like the U. S. A. The standard of living in India is admittedly low. It was calculated a few years ago that the income per head of the population in the United States was £ 76. In India, the income per head of population averaged from £ 5 to £ 8. In rupees, the annual per capita income in 1931 was:

U. S. A.	...	1406	France	621
Canada	...	1038	Germany	603
United Kingdom	...	980	Japan	218
Australia	...	792	British India	65

Judged by any standard, India is a poor country and a vast mass of its people are living just on the verge of subsistence. The state of physical health and vitality is low and the problem of India, if she is to get freedom from want, is to improve this state of affairs.

In the B. B. C. Broadcast debate on India and the Four

* G. D. H. Cole, *Beveridge Explained.*

Freedoms, Sir William Beveridge made two suggestions as to how the problem of 'freedom from want' should be tackled in India. He suggested (i) intensification of agriculture and (ii) the introduction of the principle of insurance as a part of the development of industry in India. It should be noted that the idea that the State has to provide for the unemployed or for the sick or for the old has not yet been accepted by the administration in India. Mr. H. N. Brailford has suggested that the taxable capacity of the people should be increased by increase of wealth. The ideal is to secure full employment for all people in the community. The Bombay Plan of Economic Development for India postulates the increase of national income to three times its present amount at a cost of Rs. 10,000 crores over a period of 15 years. Allowing for the growth of population meanwhile, this would mean a doubling of the *per capita* income. A feature about the plan is that the whole problem is viewed from the angle of national needs in the sphere of food, clothing, housing, education and medical relief.

The main problem in India is to increase productivity per head of population. India is predominantly agricultural. Nine-tenths of India's population live in 700,000 villages ; more than six out of every ten workers are agricultural. A long-term solution can be found by raising industrial and agricultural productivity side by side, making it possible for rural workers to buy more and more of the products of town or village manufacture. We must secure for the rural worker a standard of living comparable with that of the town-dweller. But, agrarian revolution, as the *Economist* once wrote,* cannot be accomplished in a year or a decade. The Bombay Plan envisages far-reaching agrarian reforms which will place agriculture on a basis of self-sufficiency. This is not impossible considering the fact that in Russia within a period of 12 years the national income is reported to have increased from 25 billion roubles to 125 billion roubles *i. e.* five-fold. Industrial and agricultural development must go hand in hand ; small scale-industries must be developed side by side with large-scale or heavy industries.

The principle of insurance should be introduced in Indian industry from the beginning as part of the development of industry. It should be realized that if people are wage-earners they cannot keep out of want at all times. Because there will be times when they cannot earn wages through sickness, accident, old age and through change of employment. There must be a systematic plan of guaranteeing to wage-earners a subsistence income during those interruptions of earning. The main

* *Economist*, London. October 30, 1943,

method suggested by Sir William Beveridge is social insurance, and social insurance means two things: it means that the income that you give people when their earnings are interrupted is given without a means test *i. e.* without inquiry as to their means. It also means that you take contributions from them while they are earning, in order to pay for part at least of the income they get when they cannot earn. It is healthier to have a contributory scheme, in order to increase the feeling of dignity or self-respect among the people who receive insurance benefits from the Government.

There are a number of experts who take a different view and hold that an insurance contribution is just a tax and a bad tax because you make the rich man and the poor man pay the same. In New Zealand they have abolished contributions altogether. They finance social security by a graduated income-tax. Beveridge in his Report has proposed to keep the contributory scheme in England for two reasons. Firstly, he believes that the people of England want the contributory scheme because it adds to their self-respect. The second, very practical reason, is that if social insurance is financed wholly by general taxation you lose one very important defence against pressure to pay up the benefits indefinitely.

It is generally agreed that in order to provide insurance schemes, India ought to have a contributory system. But the immediate difficulty as far as workers' contribution is concerned is that wages are not sufficiently high to ensure a comfortable standard of living. Naturally, it would be hard on the wage-earners to have to contribute anything out of their relatively small wages. Resort must be had to State help. The chief advantage of a scheme of social security is that it emphasizes the unity of the country and the people; it makes them all members of a great co-operation for abolishing want. It sets up common machinery for meeting a common need. Question is raised whether India can afford such a costly scheme of social insurance. Beveridge's reply is characteristic. The poorer a people are the more they need it; by maintaining their health, the workers can increase their productivity. We must begin by applying social insurance first to sickness *i.e.* to providing an income for sickness and treatment for sickness. Social Insurance for old age is not so important because people can go back to agriculture, if possible. The general standard of health in this country is admittedly poor. The expectation of life is low—26·91 years for males and 26·56 for females as against 60 in the United Kingdom and U. S. A. India has been called a country of diseases and deaths. There are "five giants" as Sir

William Beveridge calls them which are to be conquered. These are want, disease, ignorance, squalor and idleness. The Beveridge Plan is an attack on Giant Want; but it is also in a large measure an attack on Giant Disease. Thus the health of a human being from birth to death should be the first concern of the Government. A sick man is essentially a bad worker and is likely to turn out less work. The percentage of sickness entailing incapacity for work is 2% in England. In the absence of reliable statistics in India Dr. B. V. Narayanswamy has taken the rate of 4%; the total number of people constantly sick would be nearly 11 millions. Sickness can be alleviated to a considerable extent by insurance.

The National Health Insurance scheme in Great Britain provides for medical attendance and other benefits in cash or kind to over 15 million people between the ages of 16 and 70 years. Sir William Beveridge proposes to provide an all-round medical service for the entire nation, under public auspices, including specialist and hospital treatment. There are many alternative ways in which a public medical service could be organized; and the British Medical Association has propounded a plan of its own. Some favour a salaried State Medical Service, whereas others believe in a continuance of private practice under greatly modified conditions.

After sickness, comes unemployment. Unemployment may arise on account of two reasons: (1) as a result of the absence of source of livelihood or (2) owing to the interruption or cessation of one's earnings. Let us consider the first, unemployment resulting from the absence of the source of livelihood. This implies either lack of remunerative employment or one's capacity to engage oneself in any work. Is it possible to provide jobs to all those who are in need of jobs? Social security would really mean that every man must be assured of his livelihood if he is prepared to work. In India there are a large number of beggars. In any scheme of social security, provision must be made for beggar relief. Beggars would include besides able-bodied men and women, several disabled or infirm people—old persons and orphans. These cannot work and therefore must be given relief. The second group of unemployed people can be provided for by a scheme of social insurance. Each worker must lay by a part of his earnings for the 'rainy day'—the State and the Employer contributing equal shares. Lastly, social security plans must also provide for those people, whose incomes are insufficient. With growing families on account of absence of any check on population, quite a large number of workers in India suffer want owing to the insufficiency of their incomes.

SOCIAL SECURITY WITH SPECIAL REFERENCE TO INDIA

BY

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[Considerable interest has been roused in recent times in the matter of improvement of the social condition of the people. The demand for security has become the heart-felt peace aim of the mass of the people in all countries. The deteriorating condition of the lower classes of our people, the growth of the socialistic spirit and the schemes evolved in various countries for social security have made us realise that something is to be done to ameliorate the condition of our masses. The main aim of social security plans should be to provide security of income to the individual so that he is free from want. Much of the discontent at the present time is due to want. Wants arise because of the absence of sources of livelihood, or interruption or cessation of work, or inability to keep oneself within the income. In connection with the last cause, one has got to consider the problem of population in India. The per capita income is low and population is increasing by leaps and bounds. There should be plans for balanced and reasonable growth of the population. Social security plans for India imply removal of unemployment, provision for temporary employment, beggar relief, old age pensions, labour welfare, balanced population, increased standard of living etc. The salient features of the Beveridge plan have been stated and in conclusion it has been emphasised that we have to evolve social security plans now so that maximum social welfare is promoted.]

Social security—the phrase and the idea—as G. D. H. Cole observes has run round the world with great pace in recent years. It is a matter of common knowledge that, considerable interest has been roused in the matter of improvement of the social condition of the people. Although States did much for improving the conditions of life of the people, still it is unfortunate, they could not allay the sense of insecurity which has been increasing in recent years. During the period between the two wars, there was the prevalence of mass unemployment in two forms—permanent and cyclical—with the result that all over the world, there was a demand for security. This is, of course, the heart-felt peace aim of the mass of the people in all countries with the exception of the U. S. S. R. where social security exists to a large extent. With the publication of the Beveridge Plan, this problem has come to attract widespread attention in various countries including our own.

We in India have taken considerable interest, in recent years, in the direction of ameliorating the social conditions of our masses. Preoccupied as we were with the plans for the economic and constitutional development of the country, we

could not proceed much in the direction of evolving plans for the social side of our life. It is of course true sporadic attempts were made in the direction of labour welfare, abolition of child marriages etc. But beyond this nothing further was done. But the deteriorating conditions of the lower classes of our population the growth of the socialistic spirit and the schemes evolved in other countries for social security, have made us realise that something is to be done to ameliorate the condition of our masses. The main aim of all security plans, therefore, are, to provide security of income to the individual so that he is free from want if anybody is ever in want, he cannot do anything either for himself or to the nation. With the disappearance of want, will disappear many of the troubles which make our lives unhappy. It may not be out of place to mention that much of the discontent at the present time is due to want. Just as economic planning, social security also has become a phrase that gained currency in recent times. The individual is at the present time expected to do his best or contribute his instructed judgment for the benefit of himself and the nation. That is possible only when he is ensured security of service and livelihood. If he is to be left to himself or if he is to carry on the struggle for existence single handed, then there will be neither incentive to do anything for the nation nor time amidst his struggle to satisfy his wants. Thus, if a man has got to devote a part of his time to the nobler aspects of life, other than the mere fulfilment of wants, there must be "leisure" in addition to freedom from want. The introduction of machinery, scientific discoveries, etc. enable us to remove the drudgery of life and produce more with the result that can do something for the welfare of the nation.

WHY WANTS ARISE

The starting point of all economic activity is said to be the existence of human wants and production is meant to satisfy the wants. Production is thus the means and consumption the end. If we want to relieve the people from want, we have to consider why wants arise. They arise because of the absence of sources of livelihood. Whenever there is cessation or interruption of work, we feel wants. Again if a man cannot keep himself within his means and so balance his budget within the regular income, he feels the pinch of wants. Social security plans will have to deal with these three implications and evolve a plan of action.

In the case of wants arising out of the absence of sources of livelihood, we can easily see that it may be due to lack of

remunerative employment, incapacity to engage oneself in productive activities or absence of earning members in the family. As regards lack of unemployment, the problem that we have to consider is whether it will be possible for us to provide employment to all those who are in need of it. Social security, however, demands it. Everyone must be ensured of his livelihood when he is prepared to work. Referring to absence of earning members and incapacity to engage oneself in productive activities, the State will have to do something at least in the case of the disabled, infirm, old, orphans etc. Of late the problem of beggar relief has come into prominence and this problem can be solved along with the rest.

Regarding interruption or cessation of work, we find that want is felt owing to these factors also. We have, therefore, to meet the difficulties of temporary unemployment. Though it is rather difficult to check the changes in the volume of employment, trade or commerce, still we can reduce the evils to the minimum by a careful adjustment during the periods of transition. The genuine cases will have, of course, to be helped.

With reference to inability to keep oneself within regular income, it may be pointed out that it is this factor which is responsible for the bulk of our population living in perpetual want. Reference may be made to the per capita income in this country which is low indeed. The income per head in 1931-32 was estimated at Rs. 65. It does not mean that everyone gets this amount per year. The Central Provinces Government conducted a survey of over 600 villages and investigations have led to put the income per capita at Rs. 12 to 14 per annum. This income is not enough to cover half the cost of a low subsistence diet, not to mention adequate clothing and shelter. After conducting a survey of Matar Taluka, a prosperous part of Guzerat, Shri J. C. Kumarappa, founder and secretary of the All-India Village Industries Association, came to the conclusion that it would be somewhere between Rs. 12 and 14. This low income indicates lack of unemployment and low standard of living.

The per capita income in other countries is as follows:—

U. S. A.	Rs. 2,053
United Kingdom	1,092
France	636
Japan	271
India	65

Even this income is unevenly distributed. As Professor K.T. Shah says 1% of the population owns 35% of the total wealth, 32% of the population owns 33% and the remaining 67% owns 32% of the total wealth. The greatest defect in India's economic structure is the unven distribution of the national dividend among the various classes of the population. In those countries where the per capita income is high enough, people find it increasingly difficult to balance their budgets. Professor Pigou says that even in a country like England with such a high national income, it is not possible to provide for all its citizens, a really high standard of living. If this is so in a country with a per capita income fifteen times as large as ours, no words are needed to show the unsatisfactory economic conditions and the low standard of living of our people. In addition, the proportion of earners to dependents is also high in India. Owing to social institutions like the Joint Family system, the size of the families is also large. Consequently, majority of our people are in perpetual want.

THE PROBLEM OF POPULATION

As population has a great connection with the standard of life and want, we may just pause to consider this question leaving aside the problem as to whether India is overpopulated we have, indeed, to consider the economic issue of an increasing population sunk in poverty. With a high standard of living, the responsibilities are increasingly recognised and human beings are willing to limit the size of the family from prudential, motive so as to make it possible for an increase in the standard of living. It has been truly said that "The support of a small family on a decent standard of life makes for discipline and a healthy family life much more than unrestrained reproduction with a large progeny struggling for existence." Even Gandhiji supports limitation of families when he says "It is one thing when married people regulate the number of their progeny by moral restraint." In western countries control is regarded as a primary means of attacking poverty and of elevating social life "above the level of reproduction and food getting".

Till now, propaganda in this direction has only reached the rich and not those who are badly in need of it. Population is therefore decreasing in the class where it should increase. In fact, the lower classes stand in great need of limiting their families. Under these circumstances, a national policy with regard to population is possible in the form of propaganda through the radio, cinema, and the press. It is truly said that "the impact of the growing numbers on our ill-balanced economy

and social structure is to be taken into account while considering any plan for social security. In other words in the social security plans for India, plans for a balanced and reasonable growth of the population should find an important place. Indeed, population policy will have to be integrated into a planned economic policy based upon broader social policy." Thus, the problems of our social pathology, poverty, misery, disease etc., which are connected with our growing numbers are to be taken into account.

IMPLICATIONS OF A PLAN

Thus we can easily see that social security plans for India imply removal of unemployment, provision for temporary unemployment, beggar relief, old age pensions, labour welfare, balanced population, increased standard of living etc. It is really a pity that no coordinated attempt has been made in this direction till now even though the committees for post-war reconstruction are dealing with some items. A time has come when a well thought-out social security plan is put forward for India.

THE BEVERIDGE PLAN

Much has been written and said about the Beveridge Plan for England and its salient features may now be noted. The object of the plan is to provide security of income through a scheme for compulsory insurance for which the population is divided into 6 groups. Common needs are provided for. Employers also have to contribute for each employee to the security fund. Basic retirement pension, maternity grant, etc. are also provided for. Provision is also made for widows, children etc. If no employment could be found for any one for more than 26 weeks, training would be given in new ones. This plan is now studied all over the world as an example of what a progressive Government can do in the direction of providing for social security.

To the question whether freedom from want should be regarded as a post-war aim capable of early attainment he says that it depends upon four conditions. Firstly, the various countries should set themselves to co-operate for production in peace rather than plotting for mutual destruction by war. Secondly, readjustment of economic policy is necessary so that productive employment is maintained. Thirdly, a plan for income maintenance should be adopted. Fourthly, details regarding social insurance etc., should be taken even from now. For the Britisher, of course, international co-operation in the economic field is an essential aim. Thus the Beveridge Report is a substantial

contribution towards the establishment of a right frame of mind among the peoples of the world. This plan is so comprehensive that nothing can be taken away from it without mutilating its essential idea and robbing it "of a substantial part of its value." Indeed, this Report has covered all main contingencies of living in order to ensure a "real National Minimum" for the British people. As, G. D. H. Cole observes "The Beveridge Plan taken as a whole furnishes a firm and satisfactory foundation for the structure of social security." He, indeed, goes to the length of suggesting that the Ministry of social security should be established without delay which must be empowered to cover "the whole field of the Report" and do the needful. The matter is now at the bar of public opinion and it is for public opinion to assert itself. 'Eternal Vigilance', as Professor Harold J. Laski says, is the price of liberty.

CONCLUSION

Even though, we are living in a world of uncertainties, when what we have planned for today may become irrelevant tomorrow and even though we are pre-occupied with the task of taking the political destiny into our hands, still it is not wise for us to postpone a consideration of problems like these. We can at least have a clear conception of our objectives just as in the midst of war, it was thought to be wise to define the peace aims so that preparation might be made for the realisation of these aims. We have already referred to the question of national income which is very low and unevenly distributed. While framing social security plans, we have to bear this fact in view if these plans are not to fail on the " bed-rock of half-satisfied want." In this brief paper, an attempt has been made to give the nucleus of ideas round which social security is to be built up in India. Every idea of course requires to be developed. More than ever before there is a need to co-ordinate the efforts of the various post-war reconstruction committees and the urgency of social security plans need not be overemphasised. One may however state that the days of security for privileges and vested interests are gone and 'maximum social welfare' has been recognised to be the aim of post-war planning. Mahatma Gandhi's conception of 'non-violent society' and his emphasis on the development of village industries deserve to be considered in their proper perspective. We have also to consider the place of large-scale, small-scale and cottage industries in our national economy so that we can have a balanced economy in the country which will enable the people to be free from want.

NOTES AND MEMORANDA*

SOCIAL INSURANCE PLANNING IN INDIA

Among the many advantages that this war has conferred on our country would no doubt be reckoned the great interest that has come to be focussed on economic planning in official and non-official circles alike. In a fullfledged picture of an economic plan, a place of honour is bound to be given to social insurance plan which forms its integral and indispensable part. Indeed, the problem of social insurance has recently aroused a good deal of interest in our country. It is true that when the Government of India appointed Prof. B. P. Adarkar a special officer to draw up a Health Insurance Scheme for Industrial Labour in India (whose valuable report has been published only a few weeks ago) they were not conscious of anything like a social insurance approach to the labour problem. But that consciousness soon came and they appointed, in the beginning of the current year, the Labour Investigation Committee which might be followed by a Social Security Reconstruction Sub-Committee. The problem of social insurance planning in this country, which was of merely academic interest thus far, has, therefore, been rapidly becoming a live issue of the day.

But our economic literature in this regard is extremely poor so much so that we cannot boast of even a single good book which deals with this matter in its all-sided facets. This presents a very great difficulty not only to students of economics but also to outsiders—politicians, Government officials, industrialists, labour leaders, journalists and others—who are in great need of a single book which could unfold the mysteries of this intricate subject to them in a logical, lucid and reliable manner. The books on the theory of social insurance or on current practice, such as they exist, do not serve the purpose of the Indian readers. Mr. A. N. Agarwala as such, deserves our warmest congratulations for writing a very

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*This section is a new feature of this Conference Number and is meant to contain notes on the topics scheduled for discussion at the Conference, which have been generally based on some recent publications deserving attention. Pressure on space and time has stood in the way of making this section more exhaustive and comprehensive. But we hope that this innovation would in future be continued with greater success.

—*Managing Editor.*

valuable work entitled *Social Insurance Planning in India** which deals with the problem of social insurance in special relation to this country in a very illuminating, able and exhaustive manner and which merits attention.

After briefly disposing of such preliminaries as the institutional growth of social insurance, distinction between social insurance and social assistance on the one hand and social assistance on the other, the whirlwind growth of social insurance idea throughout the world, which he does with clarity and command that do him credit, Mr. Agarwala makes a strong case for the introduction of social insurance in this country, which is atonce persuasive, convincing and broadbased. There is no doubt that social insurance is an excellent income-maintenance device and will surely raise the standard of living of the labourers; while it will at the same time benefit employers by tending to solve the problem of labour scarcity, instability, turnover and absenteeism. The prevention, restoration and maintenance functions of social insurance are no less valuable. In spite of all these and many more advantages various objections and fears have been voiced from time to time in this regard, which the author of this work x'rays carefully and declares to be baseless.

For all such and many more reasons it is necessary for us to have a social insurance system of which the main ingredients should be sickness insurance, maternity insurance, industrial accident insurance, non-industrial accident insurance, invalidity insurance, unemployment insurance, old age insurance and survivorship insurance. But, judged from this standard, the present position of social insurance in this country is extremely deplorable. No such thing as social insurance has yet made its appearance in this country. "Statutory protection" that is available to workers does not go beyond workmen's compensation and maternity benefit; while the "welfare protection" being voluntary is on a very limited scale. The description of the welfare protection available to workers that Mr. Agarwala gives is excellent and uptodate but he shows that its extent and achievement are very modest.

It has been now some time since the workmen's compensation and maternity benefit Acts have been in operation in this country and their defects and shortcomings have become apparent on every side. But no thorough and exhaustive study has yet been made of the working of these measures; and in this excel-

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**Social Insurance Planning in India* by A. N. Agarwala. Published by the East End Publishers, E/82, Allengunj, Allahabad. Pp. 248, 1944. Price Rs. 5-12-0 net.

lent book, Mr. Agarwala accomplishes this valuable task in a brief but illuminating manner. He makes many suggestions for effecting an improvement in the existing situation, many of which are both original and excellent. He also discusses the thorny problems of sickness insurance, unemployment insurance and pension insurance. He enters into the history of the proposals bearing on these varieties of social insurance that have been made from time to time in this country and then makes his own suggestions regarding the chief attributes which each of these measures should contain.

What should be the scope of social insurance in India? This is a problem on which much hard-thinking is called for. Mr. Agarwala's important opinion is "that the social insurance scheme for India must include at the very outset industrial workers engaged in factories and Indian seamen; and should shortly thereafter rope in the commercial workers. Other categories of employed and self-employed persons should be drawn inside the net by slow degrees and as and when suitable circumstances present themselves." He elaborates this viewpoint in about a dozen pages with logic and persuasiveness. An equally brilliant chapter entitled "Nature and Pattern of Evolution of Social Insurance in India" makes a strong case for a unified system of social insurance. A unified system, he explains, does not mean that all the limbs of social insurance should be introduced simultaneously. On the contrary, we cannot build Rome in a day. He pleads for "the introduction in our country of one branch of social insurance after another, according to a pre-determined schedule and pattern, so that while we may implement only one branch at a time and one after another according to our resources and requirements, every new branch which is called to life does not follow its own path and contribute to a haphazard and assymetrical growth but occupies its own place in the harmonious and rhythmical pattern drawn up in advance and to be realised at the end." He also gives a specific priority schedule of the order in which the various limbs of social insurance might be introduced in this country.

The problem of finance is admittedly the central problem of social insurance, and it is a truism to assert that "were finance not a problem in this regard, every country would have had a satisfactory system of social insurance long ago." Mr. Agarwala is a valiant defender of the tripartite pattern of finance and discusses at length why should employers, workers as well as the State must contribute towards the common fund. He discusses at length the attitude of the Governments, Central and Provincial, employers and workers on this point; and says

that while the latter two parties are willing to contribute, the Governments are not prepared to bear their share of financial responsibility and might perhaps repudiate their very liability in this regard! He is not satisfied, and quite rightly in our opinion, with the sort of assistance the Government have agreed to give in regard to sickness insurance ; and frankly declares that "sordid guarantee of budgetary equilibrium of the social insurance institution cannot be of much avail." He thinks that "it is a matter of great misfortune that despite all the readiness on the part of Indian workers and employers, the Government of the country should be so much unwilling to do their duty in the matter."

Mr. Agarwala boldly tackles the problem of the actuarial structure of social insurance and shows in detail why should we adopt the assessment plan in this country, and why the capitalisation system is not only out of place, but would be extremely harmful in the special conditions obtaining in this country. The matter has been under debate for sometime past in this country among the experts and in the present climate of opinion the viewpoint sponsored by Mr. Agarwala, we believe, will find ready acceptance. As regards the administrative structure of social insurance, a highly democratic but thoroughly disciplined machinery is recommended, which is hoped to avoid the excesses of too much centralisation as well as of too much devolution.

In a highly interesting and illuminating chapter the problem of social insurance has been discussed *vis-a-vis* economic planning in general. Mr. Agarwala believes that the unreadiness of the Government to agree to a social insurance scheme is closely linked with the problem of the imperialistic control ; and thinks that a complete social insurance scheme is impossible without an economic plan and the latter is out of the question in the absence of political power. He believes that the criticism of the Bombay Plan that it does not make any provision for social insurance is entirely baseless ; and on the basis of his idea regarding the type of the distributive pattern that the Eight Industrialists might perhaps have in their minds, he says that it will be impossible to work up the Bombay Plan without a social insurance plan as its integral part.

Mr. Agarwala's views on the future of social insurance in India are gloomy but extremely realistic. His conclusion is that " the fate of social insurance in India must hang in balance for some time to come till political conditions have become more favourable. For the present, the Government of India are merely toying with the problem of social insurance in an extravagant manner and it would be childish to look to such efforts

for anything more than mere amusement." What reasons lead the author to come to this conclusion can better be read in his book than discussed here. The book also contains two informative appendices, one giving a summary of the Adarkar Plan of Health Insurance and the other giving a select bibliography on the subject.

The pioneer work under review from the pen of this young and rising author is extremely thought-provoking and original, bold and exhaustive; and is sure to find many admiring readers. The printing and get-up are so fascinating that it is a pleasure to possess a copy. There is no doubt that Mr. Agarwala has been quite successful in removing a long gap in our economic literature. It is further gratifying that he has brought his labours to bear on the problem particularly at the present moment when there is great need of such a book so that economists and others may get acquainted with the real issues and help to lay the foundation of social insurance in this country along right lines—that is, if social insurance is going to come in this country in spite of Mr. Agarwala's forebodings! (R. G. SARIEN)

SOCIAL SECURITY AND OCCUPATIONAL DISTRIBUTION OF LABOUR IN POST-WAR PERIOD

Mobility of labour is of extreme importance for the smooth working out of changes in production. Mechanisation and rationalisation release labour to secure employment in other economic pursuits and contribute to the increase in national dividend ; but this result is not achieved due to several factors which hinder occupational mobility. There are many social and psychological hurdles in the way ; and geographical industrial specialisation is no less a serious obstacle, to be reckoned with. The real bottleneck occurs in the immobile habits of the adults ; and in actual practice, adjustments in the labour supply in different occupations arise out of the process of natural wastage or migration of young recruits to needy industries. But young people do not always join the growing occupations because of ignorance, lack of necessary education and faulty guidance. It is true that many new factors have arisen which increase the tendency to occupational mobility, among which decreased importance of skill, improvement in education and communications and the establishment of an organised labour market, are the more important, but on balance the mobility has decreased. Social security, particularly unemployment insurance, hinders

the occupational mobility by ensuring adequate wage and standard of living; and how to get over this new difficulty is an important problem which the social security planners of the world have to solve. Mrs. Gertrude Williams addresses herself to this vital problem in her recently published and highly interesting book entitled *The Price of Social Security*,* which would repay perusal.

Mrs. Williams very ably shows how the emergence of chronic mass unemployment necessitated fundamental changes in the system of unemployment insurance. When after the first Great War, "hundreds of thousands of workers who had lived independent, self-respecting, hard-working lives but who, while still in the prime of life, were unable to find any employment for their knowledge and experience," the system of giving limited-period benefits to the unemployed stood condemned and more permanent benefits began to be given under the names of "extended" or "uncovenanted" benefit and "transitional benefit." But the provision of unemployment maintenance for unlimited periods brought into the forefront the problem of persuading workers to transfer from industries and localities where they were redundant. Mrs. Williams shows that no solution was found for this problem and many thousands settled down to a routine of maintained unemployment. It is of course true that a good deal of migration did take place in the inter-war period, but it fell much short of the requirements of the situation. "The general result of these institutional changes is to weaken the old incentives to seek remunerative employment without replacing them by new ones." During the present war, however, a remarkable feat of labour mobilisation has been accomplished but that was done only by the application of compulsion, supplemented with persuasiveness, appeal to patriotism and the provision of satisfactory conditions of work, as voluntary transfer of labour was shown conclusively to be inadequate when speed was needed.

In this regard, however, there has been a difference in the practice adopted by Great Britain on the one hand and Germany and Russia on the other. In Great Britain, limitations on personal freedom and the exercise of authoritarian control of labour have been only slowly and reluctantly introduced in response to the urgent needs of war. In both Germany and Russia, however, the subordination of the individual to the State is accepted as an integral part of political faith rather than as an unwilling concession

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* *The Price of Social Security* by Gertrude Williams. Published by Kegan Paul, Trench Turner & Co., Ltd., Broadway House, London. 1944. Pp. 199. Price 12s. 6d.

to war-time necessity; it requires neither special justification nor apology." Thus while Germany had to face a problem similar to that of Britain, she had developed a machinery to cope with the situation even before the war, in which authority instead of co-operation was the rule. The Soviet Union seems to have applied a solution that steers a middle course. The individual in Russia is kept free to choose his own occupation and is induced to train for skilled work or to transfer to other employment by means of wage differentials. No institutions are allowed to interfere with the operation of wage differentials or to mitigate the results of unwise choices on the part of individuals. But the incentive to work is not purely economic because of the developing sense of community and of social responsibility. (P. 132)

What method of occupational distribution would suit the post-war conditions in a country like Britain? Social security has profoundly changed the self-adjusting character of industry. It has weakened the incentive to find paid employment and to migrate. That, of course, is not a sufficient argument to do away with the social security system which has very strong and quite an independent set of reasons in its support; but the problem of occupational distribution has to be somehow solved. Sir William Beveridge has proposed compulsory training as a condition of receiving unemployment benefit, but Mrs. Williams considers this as impracticable.

Mrs. Williams makes a number of suggestions which according to her should be followed in this regard. These suggestions do not come to the level of authoritarianism, but they do seriously limit the freedom of action. The suggestions themselves run as follows: (1) Greater use should be made of Employment Exchange machinery than was customary before the war. Probably the best way to achieve this would be to retain the war-time compulsion to notify vacancies and withdrawals even if workers are not necessarily engaged through the Exchanges. (2) Care should be taken that young people are helped to choose occupations which are likely to suit their capacities and to provide progressive employment. Further experiments should be made in the use of aptitude tests to determine the kind of work for which school-leavers are suitable. (3) It should be compulsory for unemployed adolescents to attend full-time courses at the Young People's Colleges (4) Courses designed to give young people some understanding of the economic and political structure of the country should be an essential part of the curriculum of Young People's Colleges. (5) Some elementary teaching of fundamental economic relationships

should be introduced into the curriculum of senior and secondary schools. (6) Freedom of choice of occupation should be maintained for all capable of finding employment. (7) The right to unconditional unemployment benefit should be strictly limited in duration. (8) Admission to a Training Centre should not be made a condition of unemployment benefit. Training should be voluntary, but applicants should not be admitted unless the results of aptitude tests and medical examination show that they are likely to possess the requisite capacity and physical fitness. Those admitted should receive higher pay than the unemployment benefit. (9) The Training Centre course should not be purely technical, but should aim also at giving trainees some understanding of their civic rights and responsibilities. Probably the best way of doing this would be by making discussion groups on the lines of ABCA a compulsory part of the course. (10) The Minister of Labour should have the power to direct applicants for the benefit who have exhausted their unconditional benefit rights to any employment, even if this entails a change in locality or occupation. Whenever possible the worker should be given a choice of jobs with the compulsion to accept one within a specified period of time. (11) Similar arrangements for welfare, travelling and lodging allowances should be made for transferred workers as have been instituted as part of the war-time labour controls. (12) Joint Production Committees should be encouraged in all types of employment. Part of their duty should be to help transferred workers to adjust themselves to their new employment. (13) Unemployment benefit should be given beyond the statutory period only in very exceptional circumstances. (14) Changes should be made in the recruitment and training of Civil Servants so as to ensure that those in charge of the occupational distribution of labour, whether as advisers to young people and adults or as administrators of powers of direction, should be able to foretell production trends and guide workers into the appropriate channels. (15) Specialist sections should be developed within the general frame-work of the Civil Service. Narrow specialisation is not desirable, but the administration of economic functions of Government requires experience and knowledge which can only be accumulated over a prolonged period of service in closely related fields (pp. 193-94).

These suggestions, brilliant as they are, deserve attention of social security and post-war planners. It is as clear as broad daylight that individual liberty is played out in the modern set-up; and if the present-day economic problems are to be satisfactorily solved, a certain amount of this liberty will have to be sacrificed. This is what Mrs. Williams proposes to do to solve the problem of post-war occupational immobility. But to those who stand for an enlarge-

ment of the functions of the State with a view to satisfactorily solve the existing problems, this might appear to be a half-hearted approach. As it is, the book under reference is an illuminating and thought-provoking work which merits close attention and perusal.

SOCIAL INSURANCE IN NAZI GERMANY

As is well known, the idea of Social Insurance originated in the mind of Bismark, the Iron Chancellor of Germany; and Germany has a very old system of social insurance in existence. Nazis have not tampered with this system in the sense of depriving it of any of its established principles or features; but the available indications show that the system has suffered a general deterioration under their regime. Jugen Kuczynski has recently written an informative book* describing the conditions of labour in Germany under Fascism, which covers the period from 1933 to 1943, and which gives interesting account, *inter alia*, of the social insurance system in Germany in recent times.

Mr. Kuczynski shows that the position of social insurance and security measures has been extremely critical under German Fascism. Under this regime heavy industry assumes the *role* of the vanguard of the ruling class; and "all measures to improve the conditions of labour were opposed most bitterly by heavy industry". The social insurance finances have been used since the very dawn of Fascism for increasing war efforts and have been allowed to be vitiated by the general outlook of taking away resources from butter to guns. Part of it, we may observe, is due to the new economy technique that has been developed under Nazism. Under it employment has increased considerably, so much so that the term unemployment has become a thing of the past. Now while the worker usually has to pay 3% of his income on unemployment insurance, there is no unemployment benefit to be paid worth the name, with the result that all the finances, or most of them, in respect of this part of social insurance are available for financing war efforts. That is one great advantage of full employment and from the viewpoint of pure theory, that is a point which greatly supports the case for full employment by showing how does it economise the cost of social insurance. But the charge which Mr. Kuczynski levels against Nazism is a more serious one. He says that Germans first create

* *A Short History of Labour Conditions in Germany Under Fascism* by **Jugen Kuczynski. Published by Messrs. Frederick Muller, Ltd., 29, Great James Street, London, W. C. 1. Price 9sh. 6 d. Pp. 239. 1944.**

unemployment and then refuse to pay unemployment benefit and thus create a situation in which they can make men and women take up employment in the line the Nazis desire, which is a gravely serious charge.

The German social insurance system under Fascism has developed a highly discriminatory technique against foreign workers, which transcends any retaliatory proprieties which have international sanction and which have been incidentally recommended by Prof. Adarkar in his Health Insurance Scheme for India—the first plan in the line in this country. Foreign workers receive the same wages as German workers and the deductions from wages are the same as those of German workers; but they do not receive the same social insurance benefits, which is a highly objectionable feature.

A very grave feature of the social insurance system in the hands of the Nazis is that while the number of workers has increased, the benefits per head have gone down, and large surpluses have accrued which have been used to finance war efforts. Since 1932 the number of accidents have been increasing because of greater drive for production and intensified labour, but the percentage of compensated cases has been going down, as is clear from the table given below :—

NOTIFIED ACCIDENTS AND COMPENSATED CASES, 1932 TO 1937

(Per 1,000 Insured)

Year	Notified Accidents	Cases of Compensation
1932	33.9	3.6
1933	36.8	2.9
1934	44.1	3.1
1935	47.2	3.1
1936	50.5	2.9
1937	56.5	3.0

This table shows that while the rate of accidents increased by 70%, the rate of compensation actually went down by 20%. The number of compensated cases went down from 11% in 1934 and to as low as 5% in 1937. The result was that the index number of compensation payments per notified injury declined from 100 in 1932 to 51 in 1937, *i.e.* to almost half.

With regard to sickness the same condition is found to exist. Increased pressure at which the workers have to work, the poorer food they get, and general deterioration of working conditions,

have led to greater sickness. But while the number of days of illness per insured has increased, so great has been the terror of fascism that workers actually absented themselves for a fewer number of days, as is clear from the following table :—

HEALTH CONDITIONS IN 1932—1937.

Year	Days of illness per insured	Cases of illness per insured	Days of absence per insured
1932	8.8	2.1	4.2
1933	8.9	2.3	3.6
1934	8.3	2.6	3.2
1935	8.8	2.8	3.1
1936	8.8	2.8	3.1
1937	9.0	2.8	3.2

With regard to pensions, we find that the number of pensioners has been rapidly reduced in spite of greater unemployment and increased incidence of risk. " From 1932 to 1937," says Mr. Kuczynski, "the number of pensions paid for prolonged illness has been cut down by almost one-third ; the number of old age pensioners has been reduced by over 50 per cent ; the number of widows' pension paid remained about the same, but this is in reality a decline if we keep in mind the growing number of widows which fascism created even in peace time." The table of pensions is given below which speaks for itself :—

NUMBER AND AMOUNT OF PENSIONS PAID, 1932 TO 1937.

Year	Sickness Number 1000	Pensions Million Marks	Old Age Pensions Number 1000	Million Marks	Pensions to Widows Number Million	Million Marks
1932	18.4	4.2	40.2	13.4	0.65	141.4
1933	14.1	3.6	35.4	10.5	0.56	130.4
1934	16.7	3.4	30.9	9.1	0.58	135.8
1935	14.9	3.3	26.2	7.8	0.59	141.4
1936	13.7	3.1	21.3	6.7	0.61	146.2
1937	12.9	2.9	18.0	5.5	0.63	151.3

Year	Pension to Sick Widows Number 1000	Pension to Sick Widows Million Marks	Pensions to Orphans Number Million	Pensions to Orphans Million Marks	Total Pensions Number Millions	Total Pensions Million Marks
1932	2·1	0·5	0·55	58·6	1·26	210·8
1933	1·9	0·4	0·35	48·2	0·96	193·1
1934	1·9	0·4	0·35	47·7	0·98	196·1
1935	1·7	0·3	0·33	44·4	0·97	197·3
1936	1·6	0·3	0·31	40·9	0·96	197·3
1937	1·5	0·3	0·29	38·3	0·96	198·3

We spoke earlier of the increasing income of unemployment insurance and declining compensation. This tendency is found to exist in all the branches of social insurance. During the years 1923 to 1937, the total revenues of social insurance system rose by 1,400 million marks, *i.e.* by about 40% ; but expenses rose by only 15% mainly because of increased absolute amount paid in respect of accident and sickness. The income has been far exceeding the expenditure resulting in large surpluses which are clearly seen from the following table:—

SOCIAL INSURANCE FUND, 1932 TO 1937.

(Million Marks)

Year	Amount Rs.
1932	4,628
1933	4,774
1934	5,194
1935	5,721
1936	6,495
1937	7,439

This large wealth has been spent in financing war efforts and thus " the social insurance system was used as a means of financing the war preparations of Fascism."

Mr. Kuczynski's book throws a flood of light on other important aspects of the labour problem and conditions under Nazism as well. This volume is really part 2 of Volume Three of a series of works which Mr. Kuczynski has undertaken to write under the title *A Short History of Labour Conditions under Industrial Capitalism.* The book under discussion has been divided into two parts :

Part I dealing with the structure and economic policy of German Fascism and Part II discussing the labour policy of German Fascism. Evidently Part I is meant to serve as a background for the fuller and better study of the labour conditions under German Fascism, *i.e.* during the period 1933 to 1943.

The first part of the book, covering 92 pages, though subsidiary to the main purpose of the subject-matter, is full of interesting matters on a subject which has aroused wide interest all the world over. The author, who is an anti-fascist and took part in underground movement in Germany, condemns fascism right and left. According to him war and terror are permanent features of this cult which is merely a monopoly capitalism. He briefly discusses the fate of heavy industries, consumption goods industries, foreign trade, agriculture, transport and national finance under the Nazi regime. The reader, however, is left with the impression that the author has been at places extremely niggardly in giving full facts to support his viewpoints and his treatment often deteriorates into a sort of propagandism.

But the real substance of the book is Part II. The author shows that all the elementary liberties which labour had fought for and gained in the course of a hundred years were abolished in little more than one hundred days of Fascist Government! The wage level was also going down; the index was only 97 in 1937 taking 1932 as the base. But at the same time the cost of living was going up; it rose to 104 in 1937, the base being 1932. It must, however, be said that this low wage level was the result of the fact that Germany was manufacturing armaments and was otherwise preparing for a war and the preference of guns to butter was bound to result in a depressed standard of living. The national income of Germany has as a matter of fact gone up during the Nazi regime. But in reply it may be stated that preparation of war is an integral feature of Fascism and the low standard, which is its consequence, therefore becomes its inevitable concomitant.

THE TWENTY-SIXTH (PHILADELPHIA) INTERNATIONAL LABOUR CONFERENCE

Though the Twenty-Sixth Session of the International Labour Conference met in shadow of war, there is no doubt that the decisions that it arrived at are of great import and significance. The reason why the Conference was called at this stage has been aptly given by the I. L. O. as follows: "The Governing Body considered that the stage had now been reached at which

it was imperative that international consideration should be given to the social problems which will arise during the last period of the war and after the close of hostilities, and that it was of the greatest importance that the International Labour Conference should be able to discuss these problems and to take decisions concerning them at the earliest possible moment." The items on the agenda were (*i*) Future Policy, Programme and Status of the International Labour Organisation; (*ii*) Recommendations to the United Nations for Present and Post-War Social Policy; (*iii*) The Organisation of Employment in the Transition from War to Peace Economy; (*iv*) Social Security; and (*v*) Minimum Standards of Social Policy in Dependent Countries. The International Labour Office prepared a report relative to each of these items and these reports are now available to the public. They provide a storehouse of most valuable information and are irresistibly inviting to a student of social security, labour problems and war and peace economy.

The Report on the Future Policy, Programme and Status of the I. L. O. begins with a restatement of the essential aims of I. L. O. in the light of the broadening of the horizon which has taken place since the general principles set forth in Article 41 of the Constitution of this Organisation were formulated in 1919. The Report declares that basic principle "that labour is not a commodity; that freedom of expression and of association are essential to sustained progress; that poverty anywhere constitutes a danger to prosperity everywhere, and that accordingly the war against war" requires not only national efforts but also international co-operation. Among the more important points to which the I. L. O. should devote attention have been included "the maintenance of full employment and the raising of standards of living"; "the employment of workers in the occupations in which they can....make the greatest contribution to the common well-being"; "the effective recognition of the right of collective bargaining"; "the extension to the whole population of social measures"; "provision for child welfare and maternity protection"; etc. It is finally affirmed "that the principles set forth in this Declaration are fully applicable to all peoples everywhere and....their progressive application to peoples who are still dependent, as well as to those who have already achieved self-government, is a matter of concern to the whole civilised world." At a time when there is so much talk of the death rather than continued existence of the Atlantic Charter, when signs of international hostilities in the post-war period are deepening daily and when the danger of the dependent countries being run over by the Juggernaut of the prosperity and export drive by the leading civilised nations of the world is increasing,

all these principles and aims appear to be empty and meaningless. However, there is no denying the fact that the I. L. O. has done some very useful work in the past though the gulf between its aims and achievements is bound to remain wide in its present constitutional position. The Report then passes on to discuss the constitutional methods by which the Organisation can co-operate more closely and effectively with other International Bodies that might be set up for post-war reconstruction purposes. Then follows a suggestive chapter in which suggestions have been made for the future programme of the I. L. O. "The starting point of the post-war programme of action of the Organisation" will be the organisation of employment in the transition from war to peace economy, social security (including both income security and medical care services), and minimum standards of social policy in dependent countries. The problems of the constitutional practice of the organisation and of finance has also been discussed at length. There is an appendix on "The Nature of the Competent Authority Provided for in the Constitution of the International Labour Organisation." On the whole, the I. L. O. has entered upon the task of framing its future policy, and programme with vision, boldness and foresight; and there is no doubt that if its past achievements are any indications, it has a bright future before it and its future accomplishments might exceed its past ones.

It will be recalled that the New York Conference, in its resolution on post-war emergency and reconstruction measures, called the attention of the Governments of all State Members "to the desirability of associating the International Labour Organisation with the planning and application of measures of reconstruction" and requested "that the International Labour Organisation be represented in any Peace or Reconstruction Conference following the war". With a view to give effect to this resolution, the I.L.O. addresses itself to the task of framing the present and post-war social policy that the United Nations show policy in the Second Report which even when it runs into broad generalities and avoids preciseness is valuable in the extreme. In this report the ways and means of giving effect to the aims and ideologies set up in Report I have been laid down. The I.L.O. generally welcomes the efforts recently made by the United Nations for international co-operation in various fields and is anxious that these efforts should be finalised before the end of hostilities. As regards international policy, it welcomes the creation of the United Nations Relief and Rehabilitation Administration and expresses its willingness to co-operate with it whole-heartedly. It also welcomes the decision of the United Nations Conference on Food and Agriculture that a permanent

international organisation be set up to raise the level of nutrition and improve the efficiency of agricultural production and distribution and the international monetary plan. It is anxious that a proper machinery should be set up for the purpose of promoting international movements of capital and exhorts the United Nations to take steps to ensure the expansion of international trade and remove "all forms of discriminatory treatment in international commerce". It also thinks that "the United Nations should institute international arrangements for the development, conservation and equitable distribution of the world's oil resources in the interests of all peoples on a basis designed to avoid international friction", and "that the United Nations should initiate measures to facilitate, by the provision of necessary technical and financial assistance, regulated migration of labour and settlers in accordance with the economic development of the various countries, under adequate guarantees for all concerned".

In the national sphere it recommends each nation to make plans immediately for the rapid and orderly conversion of the various national economies from war-time to peace-time requirements ; to "maintain such financial and economic controls........ (even after the war) as may be necessary to prevent inflation"; "encourage enterprise and technological progress—and transfer of productive resources from declining to expanding industries" and to "maintain a high and steady level of economic activity and employment".

The Report then passes on to discuss the social provisions that should be inscribed in the various general or special treaties of agreements to which the United Nations will jointly or severally become parties and generally recommends that "all arrangements for economic co-operation between any of the United Nations should be framed with due regard to their social repercussions". It makes detailed recommendations on specific problems as well which merit attention. Finally, it considers the problem of the social policy that the United Nations should pursue with regard to the territories of the Axis countries that are occupied by their (United Nations') forces and divided the recommendations in the following three classes : (*a*) Liquidation of totalitarian institutions and removal of totalitarian influences ; (*b*) Administrative Control on behalf of the United Nations ; and (*c*) Positive measures of social policy. The proposals contained in this last respect are sympathetic and well considered and do not have even the shadow of what has of late been passing under the term *Vansattartism.*

Report III deals with the problem of the organisation of employment in the transition from war to peace. Full employ-

ment is a policy to which every progressive nation of the world owes allegiance and this has now come to be universally regarded as the highest achievement of an economic system. But during the period of transition, human and material resources will be dislocated from one form of employment and would have to be employed in some other forms. The travails of this process of readjustment should be minimised by all conceivable devices and this is the task to which the I. L. O. addresses iteslf in this valuable Report covering 179 pages. Before preparations can be made for taking steps to solve the problem, the I. L. O. thinks it necessary, and quite rightly, to collect all the relevant data and information regarding skill and occupational wishes of the members of the armed forces and of assimilated services as well as of the workers employed in war industries, as also regarding the demand for labour in the post-war period. It has been recommended that "surveys" of prospective labour supply and demand in the various areas should be made, by or in co-operation with the employment service, in order to show effect of the war, and the probable effect of the termination of hostilities, on the employment situation in each of these areas." A case has been made for a clear-cut plan for the demobilisation of the armed forces closely integrated with the demand for labour. Demobilisation should, considered in its isolation, depend upon military necessities and availability of transport facilities, but adjustments should be made in the policy that is finally adopted keeping an eye on the post-war requirements of labour. A brilliant suggestion has been made for the establishment of an employment service to handle and correlate the demobilisation of workers from one place, industry and work to another: and details have been given regarding its functions. It has been shown that there is need to take steps to regularise employment in the industries in which it is irregular. These suggestions have all been incorporated in the *Employment (Transition from War to Peace) Recommendation* and *Employment Service Recommendation* made by the Philadelphia Conference. Of course, the problem of employment does not exhaust its scope after the transition and perhaps an equally important problem of full employment will have to be tackled after the return of the normalcy. But it is hoped that since the Conference has now come to tackle with this menacing problem, it will in course of time come to grips with the entire problem of unemployment and take steps to supersede the now out-of-date Unemployment Convention of 1919.

Report IV deals with Social Security and has been divided into two parts. Part I deals with the Principles and covers 115 pages, whereas Part II, covering 82 pages, discusses the problems arising out of the war. This Report is extremely valuable

and the information contained herein up-to-dates the studies of this problem that have thus far been conducted by the I. L. O. The great merit of Part I is the brief manner in which all the salient features have been discussed and the problems x'rayed. But one or two facts are rather surprising. Dealing with the contingencies that should be covered no mention has been made of (*i*) non-employment injuries and (*ii*) funeral expenses which are serious omissions (see p. 42). Then, again, the pattern suggested for the relative contributions of the workers, employers and State seems to be narrow in view of the proposals contained in the recently-framed social security plans for the different countries of the world.* This part of the Report also contains a very useful, thorough and up-to-date discussion of the principles of the medical care services and the ideals prevailing on the various weighty problems involved in the matter. Pressure on space does not permit us to discuss the valuable work done by the I. L. O. in making and publishing this highly useful study and we strongly recommend our readers to study this Report with the care and attention that it deserves.

Report V deals with a highly important subject, *viz.* Minimum Standards of Social Policy in Dependent Territories. Though the efforts made by the I. L. O. for the improvement of labour standards in the dependent countries can be traced back to 1930 when the *Forced Labour Convention* was adopted, still the work in this regard has been extremely little; and this Report, which led to a valuable recommendation, is the first comprehensive study of the problems as exist or might exist in near future in such countries. Chapter I of Report discusses in a very brief form the present problems of social policy in dependent territories with special reference to the possibility of use being made of the principles and machinery of I.L.O. in the development of such territories. Chapter II "outlines those general considerations, emerging from Chapter I, which suggest the appropriateness of adoption by the present Session of the International Labour Conference of a text indicating the minimum standards of social policy of importance to dependent countries, and gives a general survey of the type of provisions which might be incorporated." In Chapter III the proposals of the I.L.O. have been discussed and explained. The Report concludes with the text in English and French of a proposed Recommendation submitted by the I.L.O. It is really gratifying to note that the I.L.O. has made a beginning in the study of the labour problems of the dependent territories and though the Organisa-

*See in this connexion, A. N. Agarwala, *Social Insurance Planning in India* (Allahabad, 1944, pp. 146-147.

tion has no method of compelling these standards on these countries, let us hope its efforts will lead to a betterment in the lot of these areas.

INDIA AND INTERNATIONAL CURRENCY PLANS

Among the measures of international economic collaboration recently taken by the United Nations, that relating to international monetary agreement is the latest and perhaps the most important. Finance being the nerve-centre of the body economic, there is no gainsaying the fact that the efficiency, appropriateness and fairness of the international agreement in this regard, will determine in a substantial measure the nature, extent and efficacy of the international economic co-operation in general in the post-war era.

To us situation in a dependant state, the matter is of grave import as well as concern for there is always the fear that the fate of this country might be pawned on the international chess-board for securing advantages in other directions. Dr. V. K. R. V. Rao has recently written an interesting book, which has already passed into two editions, which deals with the problem of the international monetary plans with special reference to this country.* Its object is to view the whole question of international currency organisation "not only from an international but also from the Indian angle." The author presupposes on the part of the reader acquaintance "with the text of various schemes which aim at creation of an international currency organisation." But he furnishes the summary of the main provisions of the various plans in seven useful appendices. The first chapter is devoted to a theoretical discussion of what the international currency problem is, how has it been solved in the past and what additional complications the post-war period is likely to produce. Dr. Rao says that the chief international monetary problem is to secure the stability of international value of national currencies in an international unit and that it cannot be solved so long as unilateral changes in exchange rates continue. Then the emergence of abnormal war balances is further likely to complicate the situation in the post-war period and "unless some provision is made for the gradual liquidation of these balances, it would be impossible for any international currency plan to function in the immediate post-war period."

* *India and International Currency Plans*, by Dr. V. K. R. V. Rao. Published by S. Chand & Co., Delhi-Lahore. 1944. Pp. 102 plus lxviii. Price Rs. 3/8.

As the international currency problem is not a purely currency problem, but involves questions of trade policy, domestic monetary policy and international investments, it is desirable that countries be given "a measure of freedom to have flexible exchanges, the range of variation being of course limited to an agreed reasonable margin." After a comparative study of the various aspects of the British and the American Plans, Dr. Rao points out that India's main post-war needs are a flexible exchange, use of protective tariffs, freedom to have stability of exchange and liquidation of sterling assets within a short period after the war; and from this angle he suggests nine modifications in the American Plan which according to him should be made the basis of further discussion. In his opinion, it should be clearly understood that debtor countries ought to attempt to reduce their imports in consonance with the volume of their exports and merely look to an increase in the volume of their exports to make up the deficit; that any international monetary plan must recognise the right of backward countries to use tariff weapons, the exchange value of the currencies of the different countries should be treated as provisional till five years after the war and that they should be allowed a range of variation upto 10%. The Canadian Plan, according to Dr. Rao, is decidedly better than the British or the American Plan for "the Canadian experts had the advantage of seeing the American and the British Plans before formulating their plan." Dr. Rao devotes one chapter to a critical analysis of the scheme of the International Monetary Fund as agreed upon between the British and American experts and concludes that India should not take a negative attitude but should accept it subject to the following conditions : (*i*) Backward countries should be given full scope for development and special facilities must be provided by the Fund therefor. (*ii*) The Fund should have its transitional object the orderly liquidation of sterling balances. (*iii*) The principle on which quotas are to be determined should be explicitly mentioned. From the point of view of India, population should be made a criterion for determination of quotas. India must have a permanent seat on its Executive Committee. (*iv*) In the operation of the Fund, no country should be given facilities for exporting capital as long as she owes war-time balances. (*v*) India should be allowed the freedom to have its own tariff policy, flexible exchange and international economic policy.

Dr. Rao says that the success of an international monetary plan will depend upon two things, *viz.*, (*i*) development of backward countries to the level of advanced countries ; and (*ii*) the maintenance of proper parities between agricultural and industrial prices so that agricultural countries may not feel nervous

about the consequences of exchange stability. In a post-script, Dr. Rao discusses the important question of the attitude which India should take towards the International Monetary Fund. He thinks that despite the rejection of the demand of the Indian delegation, India should join it because she will then be able to obtain large funds from the International Bank for her economic regeneration and the membership of the Bank is confined to those who are the members of the Fund. Since most of the objections which the original British and American Plans were open to, have been met by the joint Anglo-American Plan and the I. M. F. does not care to control domestic currencies, India must join the Fund. Besides this, India shall be in a position, howsoever weak it might be, of exercising an influence on the decisions relating to international currency problems. The author is also optimistic regarding sterling balances and thinks that "arrangements could be made with the United Kingdom for her to pay the amortisation amounts due on the loans which India can obtain from International Bank." But the real question is: Will Britain agree to such an arrangement ? Considering the present attitude of H. M. G. on the problem of these balances, this seems to be very much unlikely. (SHRI NARAYAN AGARWALA)

INTERNATIONAL CURRENCY EXPERIENCE DURING THE INTER-WAR PERIOD

More perhaps has been written and talked about on international monetary agreement in recent months than on any other economic topic of international significance. It is really difficult to intelligently follow the various monetary plans and to pass critical as well as constructive judgment on them without a thorough and comprehensive study of the background currency problems. In this latter task, a recent publication of the League of Nations will be found of very great value and merit*. This publication is entitled *International Currency Experience* and contains a monumental survey of the international monetary relations between the two wars, designed particularly to bring out conclusions of value for the task of reconstruction after the present war. The following factual review of this publication has been sent to us for publication, which is an excellent indication of its valuable contents.

International Currency Experience : Lessons of the Inter-War Period* **Published by the League of Nations. 1944. Pp. 249. Price 12/6.

The period covered—one of the most eventful in monetary history—furnishes a wealth of evidence concerning almost every conceivable type of international currency mechanism. This study examines, accordingly, the operation and breakdown of the gold and gold exchange standard; devaluations and fluctuaing exchanges; the emergence of currency groups such as the sterling area and the gold bloc; the trend of central banking policies in relation to gold movements; the rise of exchange stabilization funds; exchange control and bilateral clearing arrangements, etc. Special attention is paid to the capital needs of the world's backward areas; the problems of primary producing countries; the disturbances caused by "hot money" transfers; the impact of booms and depressions on the balance of international payments. The conclusions of the survey point the way to a system in which stable exchanges and increased trade are promoted through international co-ordination of domestic policies for the maintenance of employment and economic stability.

Here are some of the general questions discussed in this book: Why did the automatic gold-standard mechanism break down? What are the basic conditions required for a system of stable exchanges in the future? If gold is used as a means of international settlement, what methods are there for regulating the supply of it in relation to demand? What are the prerequisites for the successful functioning of an exchange-reserve system such as the gold exchange standard or the sterling area? How can individual countries make use of gold or exchange reserves as a "buffer" against deflationary or inflationary effects of fluctuations in their balance of payments? What are the basic factors governing the need, the desire and the ability of various types of countries to hold reserves for this purpose? How are the "correct" exchange rates to be determined between the different currencies? In what circumstances may adjustments of exchange rates be necessary or appropriate? What can be done about speculative capital movements of the "hot money" type? How can exchange control be avoided or, in cases where it cannot be avoided, how can it be made to operate with the least disturbance to trade?

It is mainly in the light of practical experience that these and other questions are considered; and thus the book provides a review of the whole course of international monetary developments during the inter-war period. Quite apart from the lessons it draws for the future therefore, this review of two critical decades of monetary history should alone be of interest to a wide

public. The work is the only one of its kind that has yet appeared. (K. KUMAR)

U. K. C. C. AND INDIA

The modern tendency of marketing organization is towards increasing concentration and pooling of output on national and even international scale. The present war has increased the role of the State in the economic field, particularly in the organization and control of the internal as well as the foreign trade of a country. A new technique of bulk trading is being developed and it is feared that in spite of all conferences and assurances from the big powers there are likely to be increasing restrictions on the international trade. The U. K. C. C. is a glaring example of it. Started as an agency for ousting the enemy from the neutral countries, particularly from the Balkans, Spain, Portugal and Turkey, it has spread its net world-wide, and consolidated its position on all fronts. It is at present the most efficient and dreaded agency of economic warfare. The weaker nations like India, Central Asia and Africa are at its mercy, and the pity is that though organized as a War institution, it does not seem to liquidate on the cessation of hostilities.

We are indebted to Mr. A. N. Agarwala for his book* on this topical subject on which there is no authentic information except casual references in the press. He has not only given the history of this giant, but has critically examined its activities and their repercussions on our trade and economic life. His indictment of the Indian Government is very pertinent.

We agree with the author that India should have an I. C. C. that will carry on foreign trade on Government account as well as will look after the country's interests. It will establish contacts in foreign countries in times of their need which should stand us in good stead in the post-war period.

We commend the book as an interesting and informative study which is neatly printed and got up. (K. L. GOVIL)

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* *U. K. C. C. and India* by A. N. Agarwala, University of Allahabad. Published by Vora & Co. Publishers, Ltd., Bombay, Price Rs. 2/8.

INDIAN JOURNAL OF ECONOMICS, 1916—1944

BY A. N. AGARWALA

I. PRELIMINARY

The *Indian Journal of Economics* was founded in 1916 by Professor H. Stanley Jevons who at that time held the Chair of Economics at Allahabad; and was first published under his able and erudite editorship till the year 1923. When the Indian Economic Association came into being, the *Journal* accorded the closest possible co-operation to this organisation; and in 1926, mainly through the efforts of Professor S. K. Rudra, the then Managing Editor of the *Journal*, it was officially made the organ of the said Association and is continuing as such right up to the present day.

The *Journal* has by now completed about three decades of its useful existence and has richly contributed to the development of economic thought in this country. During this period, it has become the most representative journal of our economic thought and has been regarded as such inside as well as outside India. The best and healthiest economic ideas and research works of our economists and students have been published through the medium of this *Journal*. Writers of eminence in economic domain and officials holding authoritative positions have been utilising the *Journal* as the vehicle of their thoughts and opinions. The current and pressing problems of Indian Economics have been finding timely treatment in its pages at the expert level. A close study of the past issues would reveal the extent to which this *Journal* has been correctly representing India's economic thought and making contributions to the growth, quality and direction of that thought. Important conclusions derived from this study can, again, be employed for further guidance and help. A review of the work that has already been accomplished will mark out the lacuna and gaps in our thought-system and suggest the lines on which work has yet to be done. If the picture that emerges out of this study is one of lop-sided and haphazard development, cut off from academic ideology and practical requirements of the situations alike, it will be useful and fruit-bearing to examine the causes of such an evolution. On this basis, the lines of future growth of our economic thought can be easily chalked out. It is with objects such as these that the present study has been undertaken.

II. FACTS

The articles and studies thus far published by the *Journal* during its 30-year existence constitute a voluminous mass; and it is absolutely essential to have an idea regarding their subject-matter, nature and quality. We are, as such, giving below a classified list of such articles. Besides being indispensable for the prosecution of the study in hand, such a list is also expected to be of use for the reference of the economists and students and it is hoped that it would lead to a better utilisation of the past files of the *Journal*, which perhaps are not at present being used to the best advantage and profit. A cursory glance at the list would indicate some of the important lines along which research workers in this country can direct their energies and faculties with good results. Incidentally, it also suggests the names of our economists who have been doing their best for the development of economic studies as also the branches of economic science in which they have specialised and are at present doing work.

The categories into which these articles have been divided are as follows :— (1) Economic Theory; (2) Indian Agriculture; (3) Indian Industries; (4) Indian

Banking and Currency; (5) Indian Trade; (6) Indian Transport; (7) Indian Public Finance; (8) Indian Labour; (9) Indian Population; (10) India's Economic History and Present Position; (11) Economic Planning in India; (12) Contemporary Economic Conditions; (13) Teaching and Study of Economics; (14) National Income and Standard of Living in India; (15) Statistics; and (16) Miscellaneous. Many of the articles could have been included in more than one category but the overlapping of this nature has been avoided.

§ 1. ECONOMIC THEORY

Vol. I, 1916

1. The Relation of Economic Science to Social Progress—by H. Stanley Jevons.

Vol. II, 1918—19

1. The Art of Economic Development: Part I—by H. Stanley Jevons.
2. The Relation between Interest and Discount—by D. A. Barker.
3. The Art of Economic Development: Continued—by H. Stanley Jevons.
4. The Art of Economic Development: Continued—by H. Stanley Jevons.
5. Finance of Economic Development—by H. Stanley Jevons.
6. Economics in Ancient India—by Balkrishna.

Vol. III, 1920—22

1. The Art of Economic Development: Continued—by H. Stanley Jevons.

Vol. IV, 1923—24

1. The Theory of Distribution—by Clark A. Warburton.
2. Diminishing and Increasing Returns—by Clark A. Warburton.

Vol. V, 1924—25

1. Public Finance and Development—by John Matthai.
2. Distribution among Factors of Production—by Clark Warburton.
3. Borderlands of Economics—by Radhakamal Mukerjee.
4. The Personal Distribution of Wealth and Income—by Clark Warburton.

Vol. VII, 1926—27.

1. Currency—by A. J. Saunders.
2. A Plea for the Standardization of the Essentials of Economics—by B. G. Bhatnagar.

Vol. VIII, 1927—28

1. The Economic Law of Consumption—by P. C. Basu.
2. What is Economic Principle?—by V. G. Kale.

Vol. IX, 1928—29

1. Necessaries, Comforts and Luxuries—by J. K. Mehta.

Vol. X, 1929—30

1. Agricultural Cycles and Sunspots—by R. K. Mukerjee.
2. Development of Economic Thought—by H. R. Scott.
3. Some Recent Contributions to the Wider Theory of Personal Distribution - by K. B. Madhava.
4. The Theory of Barter and of Buying and Selling—by K B. Saha.
5. Keynes and Monetary Reforms—by B. Ramchandra Rau.
6. Optimum and Over-population—by R. K. Mukerjee.
7. Some Recent Developments in the Theory of Population—by N. S. Narasimha Aiyangar.
8. The Economics of Population—The Optimum Theory—by K. A. Nilakanta Sastry.
9. The Concept of the Representative Firm—by A. K. Das-Gupta.
10. John Stuart Mill, the Reformer—by James Bonar.

Vol. XI, 1930—31

1. Land Rent in Relation to Pricing Process—by A. K. Das-Gupta.
2. Reflections on the Theory of Distribution—by S. K. Muranjan.
3. Clark on Distribution—by V. L. D'Souza.
4. Theory of Distribution—by I. M. Kapoor.
5. Theory of Distribution and Some New Concepts in It—by B. L. Vajpeyi Bhimpuri.
6. Exchange Value in the Modern World—by N. C. Chatterji.

Vol. XII, 1931—32

1. The Theory of Increasing Returns under Competitive Conditions—by A. K. Das-Gupta.
2. Optimum Taxability—by D. Ghosh.
3. Land Rent and Prices—by D. H. Buchanan.
4. Trade Booms and Depression : Theory of Facts—by S. K. Muranjan.
5. International Control of Price Levels—by V. L. D'Souza.
6. The Nature and Intensity of Demand—by J. K. Mehta.
7. Rent in Relation to Price—by K. B. Saha.
8. Some Remarks on Value and Cost, with Special Reference to Their Relation to Rent—by A. K. Das-Gupta.

Vol. XIII, 1932—33

1. A Special Type of Utility Function—by C. D. Thompson.
2. Postwar Developments in Monetary Theory—by I. M. Kapoor.
3. Post-war Monetary Developments—by L. C. Jain.
4. World Economic Crisis—by Syed Shaukat Husain Zaidi.
5. The Political Factor in the Economic Depression—by G. D. Karwal.
6. Mahadeo Govind Ranade : His Economic Views—by G. D. Karwal.
7. A Note on the Elasticities of Demand and Supply—by A. K. Das-Gupta.
8. Indian Gold Exports—by H. Sinha.

Vol. XIV, 1933—34

1. M. G. Ranade : His Economic Views—by G. D. Karwal.
2. A Stable Standard of Value—by B. N. Kaul.
3. Neo-Malthusianism and Generative Egoism—by K. S. Srikantan.
4. On the Maximum of Population—by S. Subramanian.
5. Post-war Developments in Monetary Theory—by I. M. Kapoor.
6. Inflation and Public Works as a Means to Prosperity—by M. K. Muniswamy.
7. Population and Employment—by C. W. B. Zacharias.
8. Recent Developments in Monetary Theory—by V. G. Kale.
9. The Gold Standard and its Future—by V. Sivaraman.
10. Recent Developments in Monetary Theory—by S. Thothadri Iyengar.
11. The Concept of Capital—by A. K. Das-Gupta.
12. Plain Living and High Thinking—by S. A. Samad.

Vol. XV, 1934—35

1. The Fascist Conception of Economics—by Sir J. C. Coyajee.
2. Pure Economics and Transference of Wealth—by A. M. Kurari.
3. Plain Living and High Thinking—by H. R. Scott.
4. A Restatement of the Definitions of Consumption and Production in the Light of Economic Laws of Increasing and Diminishing Utilities—by J. K. Mehta.
5. The Theory of International Trade and Recent Developments—by Gyan Chand.
6. The Theory and Problems of International Trade—by B. K. Madan.
7. The Theory of International Trade—by B. P. Adarkar.
8. The Theory of International Trade—by V. G. Kale.
9. The Theory of International Trade—by S. R. Bose.

Vol. XVI, 1935—36

1. Social Welfare. A Refinement of the Political and Economic Theory of the End of the State—by J. K. Mehta.
2. Where Do Money Profits Come From ?—by H. R. Scott.
3. Population—by Shankar Lal Agarwala.
4. Some Basic Problems of Distribution—by J. K. Mehta.
5. Wages and International Trade—by Ch. Sitaram Sastry.
6. Some Aspects of Wages—by Gyan Chand.
7. Wages and Costs : A Theory of Crisis—by B. K. Madan.
8. Low Wages and Unfair Competition in International Trade—by H. L. Dey.
9. Costs and Prices in Domestic and Export Industries—by P. Chakrabarty.
10. Wages and Costs in International Trade—by K. B. Saha.
11. Wages in Relation to Costs—by P. Datta.

Vol. XVII, 1936—37

1. The Theory of Wages in the Light of Social Insurance and Public Finance —by Benoy Kumar Sarkar.
2. Some Reflection on the Future of Economic Order—by J. K. Mehta.
3. Public Works and Labour Employment—by Shridhar V. Sohoni.
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6. The Optimum in Recent Population Theories—by D. P. Mukerji.
7. The Nationalisation of Money—by B. Ramchandra Rau.
8. Economic Interpretation of the Philosophy of Wants—by J. K. Mehta.

Vol. XVIII, 1937—38

1. A Note on the Theory of Consumer's Surplus—by Ali Bin Abdul Kadir.
2. The Theory of Employment and Industrial Depression—by J. K. Mehta.
3. The Relevance of Accepted Economic Theory to Indian Conditions—by Miss L. C. M. Guwerkerk.
4. Enterprise and Profit—by M. A. Hasan.
5. Mr. J. R. Keynes C. B. in the London Times—by H. R. Scott.
6. Recent Trends in Trade Cycle Theory—by M. K. Muniswamy.
7. Trade Cycle and Its Remedies—by B. Mukerjee.
8. The Nature and Causes of Trade Cycles—by B. Mukerjee.
9. Cartels and Trade Cycles—by V. S. Krishna.
10. The Role of Monetary and Investment Factors in Trade Cycle—by H. L. Dey.
11. J. M. Keynes and Trade Cycle—by Gyan Chand.
12. Mr. Harrod on the Trade Cycle—by P. S. Lokanathan.

Vol. XIX, 1938—39

1. Prosperity and Depression—by Benoy Kumar Sarkar.
2. Adam Smith as Student and Professor—by G. Findlay Shirras.
3. Co-ordination of the Theories of Interest—by J. K. Mehta.
4. Some Fallacies of Pigou's Classification of Public Expenditure—by K. J. Mathew Tharkan.
5. Optimum Production under Imperfect Competition—by B. C. Jain.
6. The Theory of Consumer's Surplus—by K. J. Mathew Tharkan.
7. The Optimum Population—by G. Raghava Rao.
8. What is Economics?—by B. G. Bhatnagar.
9. Theory of Interest Reconsidered—by V. L. D'Souza.
10. Interest and Investment—by P. S. Lokanathan.
11. Interest and the Complex of Preferences—by Bhavatosh Datta.
12. Rate of Interest, Employment and Economic Welfare—by A. K. Das-Gupta.
13. Equity in Distribution and Interest of Capital—by M. H. Nanavati.

Vol. XX, 1939-40

1. Mobility and Social Deviation—by R. K. Mukerji.
2. Limitations of the Theory of Competitive Equilibrium—by A. K. Das-Gupta.
3. The Concept of Optimum of Public Finance—by T. M. Joshi.
4. On the Ultimate Nature of Costs—by A. K. Das-Gupta.
5. On Elasticity of Demand—by Parimal Roy.
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8. The scope of Economics—by J. K. Mehta.
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11. Scope of Economics—by A. I. Qureshi.
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25. Scope of Economics—by B. G. Bhatnagar.
26. Scope of Economics—by G. D. Karwal.
27. On Marshall's Statics and Dynamics—by Parimal Roy.
28. The Functions of Economic Analysis—by T. M. Joshi.
29. The Continuity Assumption in Economic Analysis—by B. Datta.

Vol. XXI, 1940—41

1. The Place of J. B. Clark and E. R. A. Seligman in American Economic Science—by Nicholas Mirkowich.
2. Digrammatic Representation of Marginal Average and Total Prime and Supplementary Costs—by J. K. Mehta.
3. The Sociological Elements in Price Economics—by R. K. Mukerji.
4. Gandhi's Economic Ideal and Creed—by Mohd. Hasan.
5. The Basis of Land Tax—by Bimal Chandra Sinha.
6. Disinterring the Labour Theory of Value—by P. S. Narayan Prasad.
7. The Problem of a Durable Good—by H. E. Peries.
8. The Role of National Wage and Income Structures in International Trade—by J. S. Raj.
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11. The Negative Rate of Interest—by J. K. Mehta.
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13. The Problem of Valuation in a Socialist State—by J. J. Anjaria.
14. Rate Structure of Public Utilities in a Socialist State—by R. Balkrishna.
15. The Problem of Value in a Socialist State—by D. H. Bhutani.
16. Economic Valuation in a Socialist State—by V. L. D'Souza.
17. The Role of Cost in Socialist Planning—by M. H. Gopal.
18. Value in a Socialist State—by D. G. Karve.
19. Output and Price in a Socialist Economy—by T. Krishnamurthy.
20. Determination of Prices in Soviet Russia—by B. R. Subba Rao.
21. Allocation of Resources in a Socialist Economy—by B. Tirumalachar.
22. Value and Socialism—by Gyan Chand.
23. Value in the Socialist State—by S. K. Rudra.
24. Socialist Economy and the Problem of Pricing—by H. L. Dey.
25. Problem of Value in a Socialist State—by S. M. Shafi.

Vol. XXII, 1941—42

1. Recent Developments in Monetary Practice—by M. Sitaramayya.
2. A Simplified Version of Trade Cycle Theory—by B. N. Adarkar.
3. Taxation and Agriculture Policy—by R. Galletti.
4. Dynamical Equilibrium with Two Alternative Uses—by H. E. Peries.

5. Marshall's Theory of Money and Interest—by Krishnaswamy.
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13. Typology of Contrasted Economic System—by R. K. Mukerji.
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15. Protectionism and Indian Economic Thought—by M. C. Munshi.
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17. Ranade—the Economist—by K. Anantaram.
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19. Economic Thinking in Indian National Congress—by Khagendra N. Sen.
20. Marshall's Contribution to Indian Economics—by A. Krishnaswami.
21. The Economic Ideas of Ibn-Khaldum—by M. Abdul Qadir.

Vol. XXIII, 1942—43

1. Rent in Economic Theory—by J. K. Mehta.
2. The Investment Multiplier—by S. Kesava Iyanger.
3. A Dynamic Theory of Foreign Exchanges—by J. S. Raj.
4. The Economics of John A. Hobson—by Nicholas Mirkowich.
5. Gandhian Economics—by Shrimannarayan Agarwal.
6. International Equilibrium in a Complementary Economy—by Anil Dutta.
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8. Multiplier, "Pump-Priming" and "Acceleration"—by R. N. Poduval.
9. Some Comments on a Dynamic Theory of Foreign Exchanges—by H. Bernardelli.
10. Pure Economics and Social Engineering—by R. Galletti.
11. The Conception of Market in Economic Theory—by J. K. Mehta.

Vol. XXIV, 1943—44

1. On the Nature of Mercantilist Tariff—by Parimal Roy.
2. Inequalities—by A. Krishna Swamy Ayyangar.
3. International Equilibrium in a Complementary Economy—by J. S. Raj.
4. Is Economics Non-moral ?—by G. D. Karwal.
5. The Economic Effects of Taxes—by R. N. Poduval.
6. The Representative Firm and Its Place in the Study of Dynamic Economics—by J. K. Mehta.
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17. Some Structural Changes in Post-war World Economy—by A. I. Qureshi.
18. Structural Changes in Capitalistic Economy—by T. Hanumanta Rao.
19. Some Aspects of Recent Structural Changes in the Capitalistic Economy—by P. Sriram.

§ 2. INDIAN AGRICULTURE

Volume I, 1916

1. Agricultural Banks in India—by D. E. Wacha.
2. Co-operative Distribution in Northern India—by A. C. Chatterjee.
3. Agricultural Banks—by Henry W. Wolff.
4. The Economics of a Deccan Village—by Dr. Harold Mann.
5. Agricultural Banks in India (A Rejoinder)—by A. C. Chatterjee.
6. Division of Crops on the Threshing Floor—by J. Guleri.
7. Defects of the Land Tenure System of the U. P.—by B. G. Bhatnagar.

Volume II, 1918-19

1. Size of Holdings in the Bombay Presidency—by G. F. Keatinge.
2. Practice of Co-operation—by N. C. Mehta.
3. The Price of Land in the Punjab—by H. Calvert.
4. The Relative Prices of Food Grains—by G. J. E. O'Bryne.
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7. Lines of co-operative progress—by J. C. Coyajee.
8. Distribution of Agricultural Holdings—by E. V. Sundaram Sastry.
9. Economy of Irrigation Water—by E. A. Molony.
10. The Rural Life of Chotanagpur.

Volume III, 1920-21

1. Co-operation and the State—by C. F. Strickland.
2. The Indian Food Problem—by D. S. Dubey.
3. Prosperity and Debt in the Punjab —by M. C. Darling.
4. A Study of the Indian Food Problem—by D. S. Dubey.
5. The Ideal System of Land Tenure—by B. G. Bhatnagar.
6. Famine and Export—by Gilbert Slater.

Volume IV, 1923-24

1. A Land Mortgage Bank—by Richard Burn.
2. Co-operation and Thrift in South India—by John Matthai.

Volume V, 1924-25

The Rise in the Rural Standard of Living in the Punjab—by Malcom Darling.

Volume VI, 1925-26

1. Sixty Years of the Panjab Food Prices 1861-1920—by W. H. Myles.
2. Village Surveys—by W. H. Moreland.
3. The Economic Value of Goats in the Punjab—by H. R. Stewart.
4. The Problem of Low Agricultural Production in India—by G. D. Karwal
5. India and the Rural Problem—by Vaidya Nath Ayyar.
6. Village Economic Enquiries—by A. J. Saunders.
7. Rural Economic Conditions—by S. Kesava Iyenger.
8. The Economics of a Bengal Village—by Ayyar & Khan.
9. An Enquiry into the Causes of Rural Indebtedness by P. R. Venkatasubramaniam.
10. Agricultural Progress and Non-credit Co-operation—by K. C. Ramkrishnan.
11. Eighty Years of Punjab Food Prices 1841-1920—by Birj Narain.
12. Causes of the Comparative Inadequate Development of the Non-credit Societies in Madras Presidency—by M. K. Venkata Achary.

Volume VII, 1926-27

1. The Problem of Fractionalisation of Holdings in India—by Radha Kamal Mukerjee.
2. Peasant Proprietorship—by P. J. Thomas.
3. Some Village Studies—by S. R. Deshpande and C. S. Ghurve.
4. Agricultural Industries—by N. G. Ranga.
5. Marketing of Agricultural Products—by J. Guleri.

Volume VIII, 1927-28

1. Raiyati Holdings in Bengal—Are they Economic ?—by K. B. S. A. Latif.
2. Hand Spinning—by Man Mohan Krishna Seth.
3. The Virtues of Compulsion in Indian Rural Economic Development—by S. Kesava Iyenger.
4. Agricultural Development—by B. G. Bhatnagar.
5. Double-cropping in Certain Regions of Over-population—by B. N. Ganguli.
6. The Agricultural Regions of the Ganges Plain—by Radha Kamal Mukerji.
7. Co-operative Marketing—by H. Sinha.
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9. Agricultural Credit—by H. C. Seth.
10. Land Mortgage Banking—by J. C. Sinha.
11. Co-operative Finance—by P. N. Banerjea.
12. Some Aspects of Rural Reconstruction in India—by C. B. Jathar & S. G. Beri.
13. Agrarian Unsettlement—by Dr. Radha Kamal Mukerji.
14. Legislative Remedy for the Subdivision and Fragmentation of Holdings—by Ramarao R. Talcharkar.
15. Co-operation and Education—by M. Bashir Ahmad Khan.
16. Co-operative Marketing of Farm Products—by Dalip Singh.

Volume IX, 1928-29

1. Agricultural Contrasts in the Bengal Delta—by Radha Kamal Mukerjee.
2. Village Debt Settlement.

3. Royal Commission on Agriculture in India and the Indian Rural Population —by D. L Sahasrabudhe.
4. The Report of the Royal Commission on Agriculture: A Punjab Point of View—by E. B. Wakefield.
5. Indian Agriculture and Indian Peasants—by G. Findlay Shirras.
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7. The Report of the Royal Commission on Agriculture in India—by B. G. Bhatnagar.
8. Indian Pastures and Fodder Supply—by L. L. Sundara Ram.
9. The Reform of Indian Land Tenure—by Radha Kamal Mukerjee.
10. The System of Land Tenure in Some Districts of South Bihar—by Gyan Chand.
11. Land Tenure in Kumaon—by D. Pant.
12. Transfer of Occupancy Rights in North Behar—by B. B. Mukerjee.
13. Marketing of Jute in Calcutta—by H. Sinha.
14. Some Observations on Marketing in Northern Gujarat and Kathiawad and at Bombay—by K. H. Kamdar.
15. Marketing of Agricultural Produce and Government Aid—by S. Kesava Iyenger.
16. Marketing—by C. Gopal Menon.
17. Co-operative Marketing—by Bhupati B. Mukerjee.
18. Co-operation in the Madras Presidency—by A. J. Saunders.
19. Land Rights in Bengal—by J. C. Ghosh.

Volume X, 1929-30

1. A Lesson from Bardoli—by V. G. Kale.
2. Rent and Land-revenue in Bengal—by J. C. Ghosh.
3. The Economic Survey of an Indian Village—by E. C. Bhatty.
4. A Lesson from Bardoli—by V. G. Kale.
5. Mofussil Marketing of Jute—by H. Sinha.
6. Marketing of Agricutural Produce in the Bombay Karnatak—by S. G. Beri.
7. Financing and Forced Sale of Produce—by K. C. Ramakrishna.
8. Co-operative Milk Societies—by N. N. Basu.
9. The Economic Incidence of Tenurial System—by P. J. Thomas.
10. A Plea for the Scientific Study of the Economic Aspects of Indian Land Tenures—by N. S. Narasimha Aiyengar.
11. An Experiment on the Improvement of the Economic Relations between Landlord and Tenant in U. P.—by C. Maya Das.
12. Immediate Effects of the Permanent Settlement in Bengal—by J. C. Ghosh.

Volume XI, 1930-31

1. Soil Erosion in the United Provinces—by Shankarlal Agarwala.
2. Mortgage Debt of Mysore Villages—by V. L. D' Souza and B. S. Krishnaswamiengar.

Volume XII, 1931-32

1. Mortgage Debt of Four Taluks in Mysore State—by V. L. D. 'Souza and B. S. Krishnaswamiengar.
2. The Relation between Crops and Population Density in Bihar: A Comparison with the Agriculture of the United Provinces—by Radha Kamal Mukerjee.

3. Relation between Crops and Rural Density in the U. P.—by B. N. Ganguli.
4. Land Mortgage Banks: Some General Considerations—by M. K. Muniswamy.
5. Some Aspects of Rural Credit and the Problem of Banking Development in Rural India—by H. L. Chablani.

Volume XIII, 1932-33

1. The Marketing of Agricultural Produce in C.P. & Berar—by P. D. Nair.
2. Hats and Melas in the U. P. by B. G. Bhatnagar.
3. Extension of Cultivation as a Factor of Agricultural Development in the Middle Ganges Valley—by B. N. Ganguli.
4. The Influence of Present Depression on Indian Agriculture—by G. N. Sinha.
5. The Agricultural Depression in India—by M. L. Dam.
6. Underneath the Cloth—by J. S. Pooniah.

Volume XIV, 1933-34

1. Some Types of Cotton Markets—by J. S. Pooniah.
2. The Broken Balance of Population, Land and Water—by R. K. Mukerjee.
3. A Critical Survey of the Credit Co-operative Movement in C. P, —by A. C. Sen Gupta.
4. The Co-operative Movement in the Madras Presidency—by B. V. Narayanswamy Naidu.
5. The Problem of Rural Indebtedness—by P. J. Thomas.
6. Cost of Milk Production and Distribution at Allahabad on Large-Scale Operation—by Wilmer J. Hansen.
7. Rural Credit and Co-operation in U. P.—by S. A. Husain.

Volume XV, 1934-35

1. Agricultural Productivity in Relation to Density of Population in the Middle Ganges Valley—B. N. Ganguli.
2. Cotton Marketing—by P. Satyanandan,
3. Early Land Revenue History of the Agra Province—by B. R. Misra.

Volume XVI, 1935-36

1. Cotton Marketing—by R. G. Saraiya.
2. The Present Position of Jute in Bengal—by V. Roy.
3. Transport Costs and Marketing of Sugar—by R. D. Tewari.
4. Tenancy Legislation in Agra Province—by B. R. Misra.
5. Rural Debt Structure and Adjustment in Australia and India—by B. G. Ghate.
6. The Punjab Experiment in Land Mortgage Banks—by Sh. Ataulla.
7. Madras Land Revenue: Some Aspects—by S. Subramanian and N. S. Sivasubramanian.
8. Land Tenures in South India—by B. V. Narayanswamy Naidu.
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10. Reform of Land Revenue Assessment—by P. J. Thomas.

11. An Examination of the Law of Enhancement of Rent in Bengal—by Satyendra Nath Sen.
12. Rural Reconstruction in India—by V. G. Kale.

Volume XVII, 1936-37

1. The Problem of Consolidation of Holdings in the Punjab—by Cyril P. K. Fazal.
2. India's Agricultural Motto "Full Speed Ahead"—by R. N. P. Singh.
3. Marketing of Wheat in Cawnpore—by A. P. Mathur.

Vol. XVIII, 1937-38

1. Economics of Tube-well Irrigation in U. P.—by B. Mukerjee.
2. Subsoil Water Level and Crop Security in U. P.—by B. Mukerjee.
3. Crop Failures in the Punjab ..by Cyril P. K. Fazal.
4. Rural Reconstruction through Co-operation—by Khan Mohammad Bashir Ahmad Khan.
5. An Enquiry into Subdivision and Fragmentation of Holdings—by V. L. D'Souza.
6. Agricultural Debt Redemption and After in Bhavanagar—by Natvarlal M. Surati.
7. Agricultural Water Supply and Density of Population in the Ganges Delta—by B. N. Ganguli.
8. Crop Insurance and its Effects on Agricultural Stabilization in India—by B. Mukerjee.
9. Rural Development in the U. P.—by B. G. Bhatnagar,

Vol XIX, 1938-39

1. Crop Reporting in India—by S. K. Bedekar.
2. Economic Aspects of Sugarcane Cultivation in North Bengal—by R. C. Malhotra.
3. The Economic Future of the Indian Cultivator—by Matu Ram Ahlawat.
4. Agricultural Marketing in India—by S. C. Chaudhri.
5. Economic Conditions in the Bombay Karnatak and the Place of Co-operation in their Betterment—by M. M. Basrur.
6. Legislation for the Relief of Indebtedness—by C. N. Vakil.
7. The Madras Agriculturists' Debt Relief Act—by B. V. Narayanswamy Naidu and P. Vaidyanathan.
8. Relief of Rural Indebtedness in India—by A. I. Qureshi.
9. Debt Legislation in India—by S. A. Samad.
10. Debt Legislation—by B. Govinda Row.
11. Debt Legislation—by Sachin Sen.
12. Debt Legislation in Behar and Orissa—by B. N. Rohtagi.
13. Debt Legislation in Mysore—by B. R. Subba Rao.
14. Debt Legislation and Rural Credit in Madras—by K. C. Ramkrishnan,
15. Debt Legislation in the Punjab—by V. K. Chopra.
16. Rural Indebtedness in Assam and Debt Conciliation Act of 1936—by Miss Sadhona Gupta.
17. Taqavi Loans—by G. Raghava Rao.

Vol. XX, 1939-40

1. A Scheme for Local Self-Government in Rural Areas—by K. N. Katju.
2. Co-operation and Agricultural Credit—by A. I. Qureshi.

3. Co-operation in U. P.—by I. P. Misra.
4. Co-operative Movement in C. P. and Berar—by D. V. Rege.
5. Co-operation in N. W. F. P.—by M. R. Bhide.
6. A Statistical Analysis of Factors Affecting Gross Return of some Farms in the Punjab—by S. Arjun Singh.
7. Marketing of Agricultural Produce—by A. I. Qureshi.
8. Proprietary Tenures in Oudh—by B. R. Misra.

Vol. XXI, 1940-41

1. The Zamindari Problem in Madras—by P. J. Thomas.
2. A Scheme of the Survey of Rural Indebtedness in India—by B. G. Ghate.
3. The Economics of Soil Erosion—by B. Mukerji.
4. Some Observations on the Marketing of Wheat—by A. I. Qureshi.
5. The Units of Farming and Credit—by A. I. Qureshi.
6. The Control of Soil Erosion in the West and Its Lesson for India—by B. Mukerji.
7. Co-operative Movement in Assam.
8. Survey of Rural Indebtedness in India—by S Kesava Iyenger.
9. The Trend of Agricultural Prices in Mysore during 1928-37—by G. N. Krishnamurthy.

Vol. XXII, 1941-42

1. Agricultural Economy : Some Vital Aspects—by P. M. Trivedi.
2. Co-operation in Theory and Practice—by A. I. Qureshi.
3. Rural Co-operation—by Hari Charan Ghosh.
4. The Co-operative Movement in Sind—by D. H. Bhutani.
5. Co-operative Rural Credit in Mysore—by R. Balkrishna.
6. Some Aspects of Rural Co-operation in Travancore—by V. R. Pillai.
7. Punjab Co-operation during a Decade of Depression—by Sh. Ataullah.
8. Co-operative Multi-Purpose Society—by S. G. Beri.
9. The Capital Resources of Agricultural Co-operative Societies in Mysore—by S. Gopalswamy.
10. Multi-Purpose Society—by V. L. D'Souza.
11. Replanning of Co-operative Movement in India—by S. P. Saksena.
12. Resuscitation of Rural Credit Societies in Madras—by P. Shri Raman.
13. Rural Co-operation in the Bombay Presidency—by P. N. Driver.
14. Rural Co-operation in India—by Vaikunth L. Mehta.
15. Economic Ideas Behind the Permanent Settlement—by B. Natarajan.
16. Co-operative Agricultural Credit in Orissa—by Sadasiv Misra.
17. Rural Co-operation in Madras—by B. Govind Row.
18. Rural Co-operation in India—by P. M. Trivedi.
19. Revision of Raifferisen System—by K. C. Rama Krishnan.
20. Rural Co-operation in Madras—by S. S. Santhanam.
21. The Organization of Rural Welfare—by S. S. Bhathena.
22. Rural Credit—by A. Krishnaswami.

Vol. XXIII, 1942-43

1. An Enquiry into Indebtedness in a Mysore Village—by M. H. Gopal.
2. Economics of Mixed Farming in Charotar—by M. B. Ghatge and K. S. Patel.
3. Towards Equilibrium in Indian Agriculture—by P. S. Narayan Prasad.

Vol. XXIV, 1943-44

1. Our Food Problem—by S. K. Rudra.
2. Need for Wartime Control of Foodstuffs in India—by Sh. Ata Ullah.

$ 3. INDIAN INDUSTRIES

Vol. I, 1916

1. State Aid to Industries—by P. Mukerji.

Vol, IV, 1923-24

1. The Financing of Indian Industry—by P. P. Pillai.
2. Protection to the Indian Steel Industry—by A. Ramaiya.

Vol. V, 1924-25

1. The Indian Cotton Mill Industry—by P. P. Pillai.
2. Industrial Finance—by John Matthai.

Vol. VIII, 1927-28

1. Hand Spinning—by N. G. Ranga.

Vol. IX, 1928-29

1. The Progress of the Steel Industry (1924-27)—by H. L. Dey.
2. The Indian Tinplate Industry: A Study in Comparative Advantages—by H. L. Dey.

Vol. XI, 1930-31

1. The Cotton Mill Industry of Madras Presidency—by N. G. Ranga.
2. The Match Industry in India—by Raja Sri Daya Kishan Kaul.

Vol. XII, 1931-32

1. England's Debt to Indian Handicrafts—by P. J. Thomas.

Vol. XIII, 1932-33

1. The Distributional Aspect of Protective Duties in India—by H. L. Dey.
2. Cost Analysis and the Measure of Protection—by N. N. Das.

Vol. XV, 1934-35

1. Fundamental Problem of Capital and Industrial Finance in India—by Nabgopal Das.

Vol. XVI, 1935-36

1. Unfair Competition—by N. N. Das.

2. Making of Protective Tariff in India—by N. N. Das.
3. Fiscal Autonomy Convention under the New Constitution—by B. N. Ganguly.
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5. The Structure of Indian Handicrafts—by R. K. Mukerjee.
6. Rationalization of Indian Industries—by C. N. Vakil.
7. Changing Structure of Jute Mill Industry—by M. L. Dam.

Vol. XVII, 1936-37

1. Factory Sugar and its Problems—by R. D. Tewari.
2. The Jharia Coal Industry—by S. R. Bose.
3. Recent Tariff Policy in India—by B. K. Madan.
4. Tariff and Employment and Its Nature—by Ch. Sitarama Sastry.
5. Tariff Policy in India—by C. N. Vakil.
6. Some Second Thoughts in Our Fiscal Policy—by B. P. Adarkar.
7. New Tariff Policy for India—by Shitla Prasad Saksena.
8. Protection of Sugar—by K. B. Saha.

Vol. XVIII, 1937-38

1. The Tariff Policy for India—by P. C. Malhotra.
2. India's Protective Policy under Montford Reforms—by A. R. Bhatt.

Vol. XIX, 1938-39

1. Size of Cotton Mills in India—by N. Sundara Ram Sastry.
2. Indian Sugar Industry and Its Present Problems—by S. P. Saksena.
3. The Conservation of Coal Resources of India—by B. Mukerji.
4. Methods of Coal Conservation in India—by B. Mukerji.

Vol. XX, 1939-40

1. Indian Industrial Efficiency Comparison with Japan—by K. E. Mathew.
2. Some Aspects of Industrialization in India—by N. G. Abhyankar.

Vol. XXIII, 1942-43

1. The Indian Fiscal Policy—by A. K. Dasgupta.
2. Fiscal Policy Muddles—by B. P. Adarkar.

§ 4. INDIAN BANKING & CURRENCY

Vol. III, 1920-22

1. Substitution of Silver for Gold in South India—by H. Dodwell.
2. Stability of Exchange—by C. S. Deole.
3. Review of Report of Currency Committee—by B. F. Madon.

Vol. IV, 1923-24

1. Note on the Divergence of the Estimates of the Volume of the Rupee Circulation in 1920—by Srikrishna Dave.

Vol. V, 1924-25

1. Forward Exchange in Indian Banks—by H. Sinha.
2. Some Indices of Prices of Security and Their Relation to the Money Market—by B. N. Kaul.

Vol VI, 1925-26

1. External Capital in India—by C. Gopal Menon.
2. Foreign Capital in India—by P. S. Lokanathan.
3. Foreign Capital in India—by Gyan Chand.
4. Foreign Capital in India—by S. Subbarama Aiyar.
5. Foreign Capital in India—by N. J. Shah.
6. Foreign Capital in India—by M. K. Ghosh.

Vol. VII, 1926-27

1. The Gold Standard and the Gold Exchange Standard—by P. A. Wadia.
2. Organization of Banking in India—by B. T. Thakur.
3. Rural Banking Organization—by S. Kesava Iyenger.
4. Indigenous Banking in Bengal—by H. C. Sinha.
5. The Gold Bullion Standard—by B. Ram Chandra Rau.
6. The Future of Our Paper Currency—by B. B. Das Gupta.

Vol VIII, 1927-28

1. British India and the Gold Standard—by E. P. Wellenstein.
2. The Indian Mahajan—by L. L. Sunder Ram.

Vol. IX, 1928-29

1. The Amalgamation of Note Issues—by G. Findlay Shirras.

Vol. X, 1929-30

1. The Military Saving—by B. Ram Chandra Rau.
2. Organized Banking among the Masses—by J. S. Pooniah.

Vol. XI, 1930-31

1. Some Salient Lessons from the Foreign Banking Systems and their Application to India Proper—by B. Ram Chandra Rau.
2. The Central Problem of Indian Banking—by P. J. Thomas.
3. Industrial Banking in India—by J. C. Sinha.
4. Bengal Loan Offices—by H. Sinha.
5. Credit and Banking Problems in India—by D. Pant.
6. Regulation of Banks in India—by M. L. Tannan.
7. Some Reflections on the Problem of Industrial Finance in India—by V. K. R. V. Rao.
8. Problems of Industrial Banking and Finance—by P. S. Lokanathan.

Vol. XII, 1931-32

1. The Remonetisation of Silver—by B. Ramchandra Rau.
2. Can India Become a Creditor Country ?—by B. Ramchandra Rau.
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6. Some Aspects of Rural Credit and the Problem of Banking Development in Rural India—by H. L. Chablani.

Vol. XIII. 1932-33

1. The Stabilisation of Silver—by B. Ramchandra Rau.
2. The Power of Banks to Create Capital for Industry—by S. K. Bose.
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4. Economic Depression in India and 1s. 6d. Sterling Exchange—by B. N. Kaul.

Vol. XIV, 1933-34

1. The Indian Currency Standard—by B. R. Shenoy.
2. India and the Silver Question—by A. Ramaiya.
3. The Portuguese Bank Note Case—by B. P. Adarkar.
4. World Monetary Conference and Economic Conference—by B. N. Kaul.

Vol. XV, 1934-35

1. Clearing House Association in India—by R. C. Chowdhary.

Vol. XVI, 1935-36

1. Exports of Gold from India—by B. R. Shenoy.
2. A Review of Gold Export Fallacies—by B. P. Adarkar.
3. Professor B. P. Adarkar's Gold Export Fallacies—by B. R. Shenoy.

Vol. XVII, 1936-37

1. Bank Chairman on the Defensive—by H. R. Scott.
2. A Classification of Currency Standards—by B. R. Shenoy.

Vol. XVIII, 1937-38

1. The Reserve Bank and Monetary Stability—by B. Ramchandra Rau.
2. The Devaluation of the Franc and its Lesson for India—by I. H. Kapoor.
3. The Problem of Correlation between Exchange Rates and Exports—by Benoy Kumar Sarkar.
4. Should the Rupee be Devalued ?—by S. N. Sen and H. C. Sinha.
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12. Indigenous Banking and its Problems—by A. I. Qureshi.
13. Nidhis or Loan Societies in Madras—by B. V. Narayanswamy.

Vol. XXII, 1941-42

1. Indian Currency and War—by Mathura Nand Sinha.
2. Inflation—A Possible Remedy—by M. K. Ghosh.

Vol. XXIV, 1943-44

1. Some Investigations in Banking, Currency and Prices—by S. R. Bose.
2. Co-ordination and Control of Banking in Mysore—by S. Gopalswamy.
3. Banking Reform in India—by Miss Sovona Sen Gupta.
4. Control of Inflation—by M. K. Ghosh.
5. The Roll of Velocity of Circulation in the Present Rise of Prices—by Paul Green.
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8. The Control of Inflation in India—by T. Satyanarayana Rao.
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11. Banking Reform—by Miss Sovona Sen Gupta.

§ 5. INDIAN TRADE

Vol. I, 1916

1. The Indian Cotton Trade—by John A. Todd.

Vol. VII, 1926-27

1. Some Facts concerning the Development of the Tobacco Trade—by N. G. Ranga.

Vol. VIII, 1927-28

1. Imports of Vegetable Products into India.

Vol. XI, 1930-31

1. Economics of Foreign Trade of India—by S. C. Bose.

Vol. XII, 1931-32

1. The Vicissitudes of Indo-Chinese Commerce since 1875—by S. C. Bose.

Vol. XV, 1934-35

1. The House of Palmer and Co., Calcutta—by Saroj Kumar Basu.

Vol. XVIII, 1937-38

1. Improved Sugar Sales Organization Necessary—by M. P. Gandhi.

Vol. XIX 1938-39

1. Bilateralism and Indian Trade—by B. K. Madan.
2. Commercial Agreements in India—by B. K. Madan.
3. Trade Agreements and India's Trade Policy—by T. Satyanarayan Rao.
4. Trade Agreement between India and the U. S. A—by M. K. Muniswamy.
5. Bilateralism—by B. Tirumalachar.

Vol. XX, 1939-40

1. Price Control—by S. R. Bose.

Vol. XXI, 1940-41

1. Price-level of Tobacco in Guntur Area—by B. Govind Rao.
2. Price Trends during the Last Decade—by S. G. Beri.
3. Prices in India during the two Great Wars—by R. K. Bhan.
4. Price Level in India—by S. P. Saksena.

Vol. XXIII, 1942-43

1. A Study in Bihar Rural Prices—by S. R. Bose.

Vol. XXIV, 1943-44

1. India's Trade with U. S. S. R.—by Ritendra Nath Sen-Gupta.
2. Price Policy in Wartime—by S. R. Bose.
3. Control of Prices—by A. I. Qureshi.
4. Some Aspects of Price Control in India—by V. R. K. Tilak.

§6. INDIAN TRANSPORT

Vol. I, 1916

1. An Indian Trans-Asiatic Railroad—by George S. A. Mather.
2. Railway Policy in India—by D. A. Barker.

Vol. V, 1924-25

1. Indian Mercantile Marine—by N. J. Shah.
2. A Mercantile Marine for India—by M. P. Gandhi.

Vol. VII, 1926-27

1. Railway Finance—by S. C. Ghose.

Vol. X, 1929-30

1. Finance of Road Development—by V. L. D'Souza.

Vol. XVI, 1935—36

1. The Highway Policy of Today and Tomorrow—by B. S. Agarwala.
2. Federal Finance and the Future of Railway Contributions—by L. A. Natesan.

Vol. XVII, 1936-37

1. Road-Rail Problem in India—by Vikramajit Singh.
2. Road-Rail Competition on the B. N. W. R.—Riazuddin Ahmad.
3. The Transport Problem in India—by B. Mukerjee.
4. An Experiment in the Co-ordination of Rail and Road Transport—by H. Rahman.
5. Coastal Shipping in India—by B. V. Narayanswamy.
6. Transport Co-ordination—by Anthony Nader.
7. Some Methods of Increasing Railway Revenue in India—by M. K. Muniswamy.
8. Some Aspects of Rail-Road Competition—by Haricharan Ghosh.

Vol. XVIII, 1937-38

1. Post-war Freight Rates and Indian Prices—by B. M. Piplani.
2. A Critical Survey of Railway Finance in India Since 1924—by L. C. Tandon.

Vol. XIX, 1938-39

1. Termination of Co-Railway Contracts—by M. Riazuddin Ahmad.
2. Economic Effect of Road Development in Assam—by Ali Muhammad.

Vol. XX, 1939-40

1. The Road-Rail Problem in India—by J. C. Sinha.

Vol. XXIV, 1943-44

1. War and Road Transport—by V. V. Ramanadhan.

§7. INDIAN PUBLIC FINANCE

Vol. I, 1916

1. The Indian Customs—by D. A. Barker.

Vol. II, 1918-19

1. The Indian Income Tax—by S. M. Pagar.

Vol. III, 1920-22

1. The Tax System under the Reforms –by C. D. Thompson.
2. Indian Finance and the Reform Scheme—by T. K. Shahani.
3. Indian States and Indian Sea Customs—by H. Stanley Jevons.

Vol. V, 1924-25

1. The Growth of Taxation in Relation to Population and Prices—by C. J. Hamilton.
2. Some Aspects of Indian Finance—by S. Vaidya Nath Ayyar.
3. The Indian System of Taxation—by Anwarul Hasan.
4. The Future of Direct Taxes in India—by Gurumukh N. Singh.
5. The Function of Incometax in the Fiscal System of India—by Gyan Chand.
6. Thoughts on Indian Finance—by B. G. Bhatnagar.
7. Central and Provincial Financial Relation—by R. M. Joshi.
8. Allocation of Revenues between the Central and Provincial Governments——by Gyan Chand.
9. Separation of the Railway from the General Budget—by P. S. Lokanathan.

Vol. VII, 1926-27

1. Incometax in India –by Gyan Chand.
2. An Early Proposal for a Federal System of Finance in India—by P. J. Thomas.
3. Note on Incometax in 1924-25—by Gyan Chand.
4. Taxation of Land in India—by N. S. Narsimha Iyenger.
5. Capitation Taxes—by V. G. Ramkrishna Ayyar.
6. Taxation of Agricultural Incomes in Bengal—by J. P. Niyogi.
7. Taxation of Agricultural Incomes in Bengal—by S. A. Latif.
8. Local Taxes in the Rural Areas of the Madras Presidency—by M. V. Venkatarangaya.
9. Land-value and Taxation for India—by C. D. Thompson.

Vol. IX, 1928-29

1. Export Duties in the Indian Empire—by E. H. Solomon.
2. Federal Finance in India—by K. T. Shah.
3. Panchayat Finance--by V. L. D'Souza.
4. Division of Functions and Resources in India—by R. M. Joshi.
5. Some Aspects of Local Finance in British India—by B. G. Bhatnagar.
6. Central and Provincial Financial Relations in India—by S. V. Ayyar.
7. A Revenue System for Indian Central and Provincial Governments—by T. K. Shahani.
8. Federal Finance in India—by D. G. Karve.
9. The Economics of Grants-in-aid—by V. G. Ramakrishna Ayyar.
10. Fiscal Relations between the Indian States and the Government of India—by B. Tirumalachar.
11. Prohibition and Prohibition-Finance in Bombay Presidency—by S. K. Muranjan.

Vol. X, 1929-30

1. Incometax in India—by P. N. Banerjea.

Vol. XXI, 1940-41

1. Review of Finances in Bengal in 1937—by Haricharan Ghosh.
2. Public Expenditure in Mysore—by M. H. Gopal.
3. The Depression Finance of the Bombay Government—by T. M. Joshi.
4. Non-tax Revenue of Mysore—by S. Gopalswamy.
5. Five Years of Orissa Budget—by Sadasiv Misra.
6. The Tax System of Mysore State—by K. S. Nanjundaiya.
7. Financial System of Hyderabad—by A. I. Qureshi.
8. Some Aspects of Provincial Finance—by B. N. Rohatgi.
9. Financial Problems under Provincial Autonomy—by B. K. Madan.
10. Public Revenue and Exenditure in the U. P.—by B. R. Seth.
11. The Finances of Indian States—by P. J. Thomas.
12. British and Indian Finance—by S. Kesava Iyenger.
13. Public Debt in the U. P., 1921-1937—by K. C. Sarkar.
14. Finance of the Madras Province, 1930-40—by V. Narayanswamy.
15. The Financial Situation in Sind—by N. K. Bhojwani.

Vol. XXII, 1941-42

1. Loans and Their Classification—by Appa Rao.
2. Local Terminal Taxation—by Gyan Chand.
3. A Review of Madras Local Finance—by B. V. Narayanswamy.
4. State in Relation to Local Finance in Mysore—by B. R. Subba Rao.
5. Municipal Taxation in C. P. and Berar—by C. D. Datey.
6. Some Aspects of Local Finance in Bihar—by D. P. Srivastava.
7. Reorganization of Local Finance in India—by T. Satyanarayana Rao.
8. A Neglected Source of Local Revenue—by M. H. Gopal.
9. The Scope of Local Finance—by K. V. Rao.
10. Finances of the District Boards in Mysore—by G. N. Krishnamurthy.
11. Finance of Local Bodies in the Punjab—by D. N. Malhotra.

Vol. XXIII, 1942-43

1. A Note on the Working of the Departmentalization Schemes of Finances in Hyderabad State during Eighteen Years—by S. Kesava Iyenger.
2. Travancore Finances during the Last Decade—by R. N. Poduval.

Vol. XXIV, 1943-44

1. The Proposed Agricultural Income-tax in Bengal by Miss Sovona Sen Gupta.

§ 8. INDIAN LABOUR

Vol. I, 1916

1. Indian Factory Legislation—by S. H. Fremantle.

Vol. II, 1918-19

1. Labour Supply from Districts near Allahabad—by J. P. Srivastava

Vol. III, 1920-22

1. A Subsistence Wage—by H. W. Lyons.
2. Labour Unrest in India—by G. L. Nanda.
3. Improvement of the Conditions of Indian Labour—by S. V. Kanungo.
4. Suggestion for Labour Legislation in India—by A. R. Burnett-Hurst.

Vol. VI, 1925-26

1. Principles of Labour Legislation in India—by P. S. Lokanathan.

Vol. VII, 1926-27

1. The State and Housing—by R. B. Gupta
2. The Labour Problem in India—by Mulk Raj.
3. Trade Unionism—by K. B. Madhava.
4. Analysis of Trade Disputes—by K. B. Madhava.
5. Labour Welfare and City Improvement—by R. K. Mukerjee.

Vol. VIII, 1927-28

1. Provident Fund and Pension Systems—by Man Mohan Krishna Seth.
2. Industrial Migration in India—by R. B. Gupta.
3. Social Insurance—by K. B. Madhava.
4. Social Economics—by Rev. James Kellock.
5. A Case for Social Insurance in India—by D. P. Mukerji.

Vol. IX. 1928-29

1. Labour and the Agricultural Commission Report—by S. K. Rudra.
2. Indian Labour Organization and Forced Labour—by P. P. Pillai.

Vol. X, 1929-30

1. International Labour Conference, 12th Session—by Capt. W. J. Ellison.

Vol. XI, 1930-31

1. Agricultural Labour in North Behar—by B. B. Mukerjee.
2. Geneva and Indian Labour—by D. G. Karve.
3. Labour and Recruitment of Wages—by R. B. Gupta.
4. Trade Disputes in India—by B. V. Narayanswamy.

Vol. XII, 1931-32

1. A Further Analysis of Statistics of Trade Unionism and Trade Disputes—by K. B. Madhava and V. N. Poornapregna.
2. A Study of Some Vital Problems Relating to the Working Class Population of Bombay—by G. S. Ghurye and S. P. Deshpande.
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5. Labour Turnover and Productive Costs—by B. R. Subba Rao,

6. Towards Industrial Peace—by B. V. Narayanswamy.

Vol. XVI, 1935-36

1. The Problem of Unemployment of the Educated Classes in U. P.—by Nawal Kishore Chaddha.
2. Safety and Health Legislation—by R. D. Tiwari.

Vol. XVII, 1936-37

1. Cost of Living and Standard of Living of Industrial Labour at Cawnpore —by Shitla Prasad Saksena.

Vol. XVIII, 1937-38

1. I. L. O. and Agricultural Workers—by P. P. Pillai.
2. The Story of the I. L. O.
3. Profit-Sharing—An Indian Plan—by T. P. Rajan.
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5. Incidence of Unemployment among English-knowing Persons in the Madras Presidency—by G. Raghava Rao.
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8. Unemployment in India—by S. A. Samad.
9. Unemployment Problem in India—by S. M. Shafi.
10. The Problem of Unemployment in India—by V. K. R. V. Rao.

Vol. XIX, 1938-39

1. Social Insurance—by R. D. Tewari.
2. India's Problem of Unemployment Seen Through a New Opportunity—by Anthony Nader.
3. Unemployment in India—by M. P. Gandhi.

Vol. XX, 1939-40

1. Factory Legislation and Administration in Hyderabad—by M. Abdul Qadir.
2. Labour Problems and Legislation—by B. N. Rohtagi.
3. Labour Unrest in India—by A. C. Bhatia.
4. Some Aspects of Indian Labour Problem—by S. K. Rudra.
5. Labour Problems and Labour Legislation—by A. N. Mullick.
6. Some Aspects of Agricultural Labour in Hyderabad—by Akhtar Husain.
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8. Applicability of the Principle of Minimum Living Wage in India—by S. P. Saksena.
9. Industrial Disputes and their Settlement—by B. V. Narayanswamy.
10. Industrial Disputes and Legislation—by P. S. Lokanathan.

Vol. XXI, 1940-41

1. The Bombay Industrial Disputes Act, 1938—by N. H. Padasani.
2. Indebtedness of the Mill Worker—by K. S. Srikantan.

Vol. XXII, 1941-42

1. Working of the Bombay Industrial Disputes Act—by G. C. Kumar.
2. Trends of Dietary Habits and Analysis of Food Budgets of Working Class Families in Bihar—by K. Mitra.

Vol. XXIII, 1942-43

1. The Bombay Industrial Disputes Act—by N. S. Pardasani.

Vol. XXIV, 1943-44

1. Labour in Wartime—by S. R. Bose.
2. Industrial Disputes during Wartime and Their Settlement—by M. Abdul Qadir.

§ 9. POPULATION

Vol. VII, 1926-27.

1. A Review of the Recent Literature on the Problem of Population—by B. N. Kaul.

Vol. IX, 1928-29

1. The concentration of Population in Eastern Bengal—by R. K. Mukerjee.

Vol. X, 1929-30

1. Indices of Productivity in Relation to the Problem of Population—by B. N. Ganguli.

Vol. XIV, 1933-34

1. Population Pressure and the Migration Problem in Asia—by R. K. Mukerjee.
2. Population Pressure and the Migration Problem in Asia—(*Contd.*)—by R. K. Mukerjee.
3. Population Problems—by H. B. Bhide.
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7. The Trend of Indian Birth Rates in the Perspective of Comparative Demography—by Benoy Kumar Sarkar.

Vol. XV, 1934-35

1. The Trend of Indian British Rates in the Perspective of Comparative Demography—by Benoy Kumar Sarkar.
2. Some Problems of Inter-Provincial Migration—by D. N. Banerjee.
3. Is India Over-populated ?—by H. Sinha.

4. Some Aspects of Population Problem in Sind—by H. C. Malkani.
5. Immigrant Population in Bengal—by S. V. Ayyar.
6. Population and Production (1920-31)—by P. J. Thomas.

Vol. XVI, 1935-36

1. Some Economic Features of the Travancore Census—by N. S. Narsinha Aiyangar.
2. The Correlation between Annual Income and Fecundity in a few Selected Villages of the Punjab—by Shadi Lal Bhalla.

Vol. XVII, 1936-37

1. The Relations between Human and Bovine Population Pressure in India—by Radha Kamal Mukerjee.
2. The Growth of Population and the Factor of Density in Travancore—by P. S. Balkrishna Pillai.

Vol. XVIII, 1937-38

1. Age Composition and Sex Ratio of the Population in the British Districts of the Bombay Presidency—by G. Raghava Rao.

Vol. XIX. 1938-39

1. Population Survey of Sixteen Villages—by R. B. Lal.
2. A Study of the Population Problem in India—by B. G. Ghate.

Vol. XX, 1939-40

1. Migration—by R. K. Banerji.
2. The Population Trend in India—by Benoy Kumar Sarkar.

Vol. XXI, 1940-41

1. The Problem of Estimating Population of India during Intercensal Years—by D. Sen-Gupta.
2. Seasonal Variations of Births—by G. Raghava Rao.

Vol. XXIII, 1942-43

1. A Critique—by N. V. Sovani.

§ INDIA'S ECONOMIC HISTORY AND PRESENT CONDITIONS

Vol. I, 1916

1. The Ain-i-Akbari—A Base-line for the Economic History of India—by W. H. Moreland.
2. Thoughts on India's Economic Position—by Manohar Lal.

Vol. II, 1918-19.

1. South Indian Economics—by Gilbert Slater.
2. A Vignette from Peter Mundy—by E. A. Molony.
3. Mughal Currency and Coinage—by S. V. Venkateswara.
4. Modern Mercantilism in India—by C. D. Thompson.
5. The Earliest Agricultural Organization in India—by P. C. Basu.

Vol IV, 1923-24

1. A Deccan Village under the Peshwas—by Harold H. Mann.
2. The Bases of Indian Economy—by B. G. Bhatnagar.
3. Early Commerce of India—by L. K. Hyder.

Vol. V, 1924-25

1. The Religious Base in Indian Economy—by B. G. Bhatnagar.
2. The Fallacy of a Golden Age—by C. J. Hamilton.
3. Indian Exports of Cotton Goods in the 17th Century—by W. G. Moreland.

Vol. VI, 1925-26.

1. An Economic Survey in Mysore Malnad.

Vol. VII, 1926-27

1. Currency in Early British Days—by J. C. Sinha.

Vol. VIII, 1927-28

1. Deficit and Surpluses in the Accounts of the East India Co.—by P. N. Banerjee.
2. Hindu Taxation System—by Dr. Balkrishna.
3. The Hindu Taxation System—by Dr. Balkrishna.

Vol. X, 1929-30

1. Organized Banking in the Days of John Company by—B. Ram Chandra Rau.

Vol. XI, 1930-31

1. Economic Survey of Miranpur Basahi Village—by B. S. Agarwala.
2. Currency in Shivaji's Kingdom—by V. G. Kale.
3. Economic Development of India—by P. J. Thomas,
4. Kashmir During the Moghul Period—by P. N. K. Bamzai.
5. Markets and Prices of Articles in Bengal (1740-1765)—by K. K. Dutta.

Vol. XIII, 1932-33

1. Kashmir under the Sikhs (1819-46)—by P. N. K. Bamzai.
2. Rural Economy in the Deccan under Maratha Rule : Economics of a Village Hundred Years Ago—by V. G. Kale.

3. Rural Punjab in the 19th Century—by G. D. Karwal.
4. Rural Economic Conditions in South India (1800-90)—by B. V. Narayanswamy.
5. Some Aspects of Economic Depression in India—by H. L. Chablani.

Vol. XIV, 1933-34

1. A Glimpse of Banking Activities in India during the First Half of the Nineteenth Century—by Nabgopal Das.
2. Post-Diwani Land Revenue System in Bengal and Behar—by D. N. Banerjee.
3. The Deccan at the Advent of the British Rule—by D. G. Karve.
4. Agristic Serfs in South India at the Advent of the British Rule—by C. S. Srinivaschariar.
5. Economic Conditions in Maharashtra at the Advent of British Rule—by V. G. Kale.
6. Economic Conditions in South India at the Advent of British Rule—B. V. Narayanswamy.

Vol. XV, 1934-35

1. Economic Surveys in Netherlands India—by J. S. Furnivall.
2. East India Co. and Silk Industry (1800-1840)—by B. B. Mukerjee.
3. Economic Importance of Behar during the Mid-Eighteenth Century—by K. K. Datta.
4. Internal Transit Duties under the E. I. Co.—by B. B. Mukerji.
5. Economic Disintegration during the Mid-Eighteenth Century—by K. K. Datta.
6. Agricultural Labour in Behar in the First Half of the 19th Century—by Bimanbihari Majumdar.

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1. World Depression and India—by P. S. Narayan Prasad.
2. Some Economic and Financial Aspects of New Constitution—by D. N. Banerjee.
3. Some Aspects of New Constitution—by S. V. Ayyar.
4. Financial Prospects of the Indian Federation—by M. K. Muniswamy.
5. Financial Prospects of the New Constitution—by P. J. Thomas.
6. Economic Welfare under the New Constitution—by B. N. Kaul.

Vol. XVII, 1936-37.

1. Economic Enquiry of Villagh Nijohan, Distt. Rae Bareilly—by A.P. Mathur.
2. Money Market in Maharasthra Two Centuries Ago—by V. G. Kaul.

Vol. XVIII, 1937-38

1. Regulation of Interest in the Madras Presidency (1800-55)—by B. Natarajan.

Vol. XX, 1939-40.

1. Economic Condition of a Village in North Behar—by Sushobhan Sarkar.
2. Labour in Ancient India—by K. S. Srikantan.

Vol. XXI, 1940-41

1. Socio-Economic Survey of Pano Akil Taluka—by D. H. Bhutani.
2. Price of Foodgrains in Madras in 19th Century—by P. J. Thomas.

Vol. XXII, 1941-42

1. Economic Organization in Ancient India—by B. Tirumalachar.

Vol. XXIV, 1943-44

1. Economic Control in India during the War—by S. Kesaya Iyenger.
2. Some Aspects of Economic Control in India during the War—by B. Govind Rao.

§11. PLANNING

Vol. XV, 1934-35

1. Some Difficulties of a Planned Economy in India—by H. Rahman.
2. Economic Planning for India—by K. K. Sharma.
3. Economic Planning for India—by M. R. Gandhi.
4. The Essentials of Economic Planning for India—by Gyan Chand.
5. Economic Planning for India—by P. S. Sodhbans.
6. A Plan for Economic Recovery—by P. J. Thomas.
7. Scope and Method of Economic Planning in India—by H. L. Dey.
8. Economic Planning of an Agricultural Region, U. P.—by R. K. Mukerjee.
9. Economic Planning in U. P.—by L. C. Tandon.
10. Some Aspects of Economic Planning for India—by B. N. Narainswamy.
11. Advisory Economic Organization for India—by B. N. Kaul.
12. The Rationale of Economic Planning for India—by Haricharan Ghosh.
13. Fallacies of Economic Planning—by Khagendra N. Sen.

Vol. XV, 1935-36

1. Economic Planning for India—by D. G. Karve.

Vol. XIX, 1938-39

1. Prolems and Prospects of Planned Industry—by P. S. Narayan Pd.
2. Basic Factors in Indian Reconstruction—by B. G. Bhatnagar.
3. Industrial Planning in India—by N. S. Pardasani.
4. Planning of Power Production in India—by B. V. Narayanswamy.

Vol. XX, 1941-42

1. Ranade and Economic Planning—by D. G. Karve.

2. Rural Co-operation and National Planning in India—by S. Kesava Iyengar.

§ 12. CONTEMPORARY ECONOMIC CONDITION

Vol. I, 1916

1. The Southern States of America—A Comparison with India—by S. Higginbottom.

Vol. II, 1918-19

1. An Australian Irrigation Scheme—From Official Sources.
2. A Note on Some Anomalies in the Currency of Hongkong—by W. J. Hinton.

Vol. V, 1924-25

1. Economic Research Institutes in the United States—by Clark Warburton.

Vol. VI, 1925-26

1. A P arliament of Industry—by Dr. P. C. Basu.

Vol VIII, 1927-28

1. The Influence of Custom in the Evolution of Anglo-American Economic Society—by Clark A. Warburton.
2. Gold and French Monetary Policy—by G. Findlay Shirras.

Vol. X. 1929-30

1. The Bri tish Liberal Industrial Inquiry—by A. Ramaiya.

Vol. XIV, 1933-34

1. American's Abandonment of Gold Standard—by B. Ramchandra Rau
2. The Trend of International Trade—by P. J. Thomas.

Vol. XV, 1934-35

1. Agriculture and Industry in China—by D. N. Maluste.
2. Economic Ideals of New Germany—by B. P. L. Bedi.

Vol. XVI, 1935-36

1. Stabilicing the Pound- by B. N. Adarkar.
2, Japanese Industry—by P. J. Thomas.

Vol. XII, 1936-37

1. The New Deal in America—by K. P. Viswanathan Nayar.

Vol. XIX, 1938-39

1. The Ceylon Rupee—by B. R. Shenoy.

Vol. XXIII 1942-43

1. China's Indusco—by R. N. Sen-Gupta.

§ 13. TEACHING AND STUDY OF ECONOMICS

Vol. I, 1916

1. The Teaching of Economics—by H. Stanley Jevons.
2. Business Management as a University Study—by Stanley Jevons.
3. The B. A. Economics Courses in the University of the Punjab—by J. A. Todd.

Vol. II, 1918-19

1. The University Militant—by Patrick Geddes.
2. Higher Economic Courses : Madras University—by Gilbert Slater.
3. Higher Economic Courses : Allahabad University—by H. Stanley Jevons.
4. Relations of Economics Departments to Indian Economic Problems—by H. W. Lyons.

Vol. III, 1920-21

1. Proposed New Economics Course—by H. Stanley Jevons.

Vol. V, 1924-25

1. The Place of Economics in the Educational Curriculum—by R. M. Joshi.

Vol. VIII, 1927-28

1. Economics as She is Taught—by H. R. Scott.

Vol. XI, 1930-31

1. Whitherward Ho—by Kesari Singh Pancholy.

Vol. XVIII, 1937-38

1. Methods of Agricultural Economic Research—by H. Rahman.

Vol. XX, 1939-40

1. Need of the Development of Research Work in Agricultural Economics in India—by Arjan Singh.
2. Some Methods of Research in Farm Economics—by Arjan Singh.

Vol. XXI, 1940-41

1. The Need for the Study of Insurance—by A. N. Agarwala.

Vol. XXIV, 1943-44

1. Teaching and Research in Economic Statistics—by H. Sinha.

§ 14. NATIONAL INCOME AND STANDARD OF LIVING

Vol. VI, 1925-26

1. The Relation of House Rent to Income—by R. B. Gupta.

Vol. XIV, 1933-34

1. Future of World and National Incomes—by V. G. Kale.

Vol. XVII, 1936-37

1. Estimation of the National Income of India—by B. N. Kaul.
2. The National Income of India—by P. J. Thomas.
3. A Critical Examination of Some of the Estimates of National Income of India—by H. C. Seth.

Vol. XIX, 1938-39

1. National Income: The Next Step in India—by D. G. Karve.
2. Seasonal Variations in Cost of Living—by S. R. Bose.

Vol. XXIII, 1942-43

1. Standard of Living in the N. W. F. P.—by Aziz Farooq.

§ 15. STATISTICS

Vol. V, 1924-25

1. Indian Financial Statistics—by C. N. Vakil.

Vol. VI, 1925-26

1. Indian Financial Statistics—by T. K. Duraswami Aiyar.

Vol. IX, 1928-29

1. Business Forecasting—by K. B. Madhava.

Vol. X, 1929-30

Vol. XV, 1934-35

1. A Study in Indian Cost of Living Index Numbers—by S. R. Bose.

Vol. XVII, 1936-37

1. The Role of Weights in International Trade Statistics—by S. Subramanian

Vol. XVIII, 1937-38

1. An Index of Business Activity—by S. R. Bose.

Vol. XXI, 1940-41

1. A Formula for Limits of Variations in a Weighted Index due to a New Series of Weights—by J. K. Pande.

§16. MISCELLANEOUS

Vol. I, 1916

1. The Indian Institute of Science, Bangalore—by Sir Francis Spring.
2. A Preliminary Note on Pauperism in India—by Padam Sain Jain.

Vol. II, 1918-19

1. Indian Fuel Problem—by K. V. Rangaswami Aiyanger.

Vol. III, 1920-22

1. Essentials of Sociology—by Patrick Geddes.
2. Classification of the Economics Section of a Library—by H. Stanley Jevons.
3. Essentials of Sociology—by Patrick Geddes.

Vol. IV, 1923-24

1. Economic Geography—by W. H. Lyons.
2. The Imperial Forest Research Institute, Dehra Dun—by H. Stanley Jevons.
3. The Economic Value of the Prevention of Disease—by C. L. Dunn.
4. Kautilya Circle—by B. G. Bhatnagar.
5. Kautilya Circle—by B. G. Bhatnagar.

Vol. V, 1924-25

1. Maternity and Infant Welfare Work in India—by G. M. Broughton.
2. The Board of Economic Enquiry, Punjab—by W. H. Myles.
3. The Relation of House Accommodation to Child Mortality—by R. B. Gupta.

Vol. VI, 1925-26

1. Relation of House Accommodation to Child Mortality—by R. B. Gupta.

2. The Board of Economic Inquiry, Punjab—by J. K. Mehta.
3. The Problem of the Second Chamber—by Gurumukh N. Singh.
4. Do we want a Second Chamber in India ?—by S. Vaidya Nath Ayyar.
5. Second Chamber in Theory and Practice—by V. S. Ram.
6. Tricameral Legislatures—by H. R. Batheja.

Vol. VII, 1926-27

1. Opium in Indian States—by R. B. Sirdar M. V. Kibe.

Vol. VIII, 1927-28

1. The Street Beggars of Calcutta—by B. N. Ganguly.
2. A Commission of Economists in Poland—by G. Findlay Shirras.

Vol. X, 1929-30

1. The Late Sir Ganga Ram's Generosity.

Vol. XI, 1930-31

1. Fluctuations of River and Economic Life in a Deltaic Region—by R. K. Mukerjee.
2. A Note on the Board of Economic Inquiry, Punjab—by J. W. Thomas.

Vol. XVI, 1935-36

1. A Scheme of Elevators for India—by P. Satyanandan.

Vol. XXI, 1940-41

1. The State and Economic Life—by A. I. Qureshi.

Vol. XXIII, 1942-43

1. Recent Economic Literature—by A. N. Agarwala.

ECONOMIC LITERATURE

Book Reviews

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Book Reviews—*Contd.*

Indian Journal of Economics

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INTERNATIONAL MONETARY FUND*—II

BY

DR. H. L. DEY

III

THE POSITION OF GOLD

From a study of the proposed objectives, functions and powers of the Fund, it would appear that the Fund is designed to give a reasonable degree of stability to the foreign exchanges without making exchange parities absolutely rigid as under the gold standard. At the initial stage, the par value of each member country shall be expressed "in terms of gold as a common denominator or in terms of the U. S. dollar of the weight and fineness in effect on July 1, 1944." As we have already seen, the initial parity of each country's currency in terms of gold will be fixed at an appropriate level in consideration of its internal economic conditions and its balance of account, amount of its gold and foreign exchange reserves, etc. There will be no automatic going back to a pre-war or so-called normal rate of exchange due to any sentimental considerations of prestige. Each country will be guided wholly by relevant current factors and probable and foreseeable factors of change in the near future in suggesting the initial parity of its currency

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in terms of gold. And this initial rate will be subject to later alterations, up to 10 p.c. with the automatic approval of the Fund, and up to a further 10 p.c., if approved by the Fund, the approval or disapproval of the Fund in the second case being given within seventy-two hours. It is important to note that, in the transition period of the first three or five years, a request made by a member country for an alteration of the parity will be very readily and sympathetically considered by the Fund. And, in fixing the initial rate of parity and in proposing alterations of it in subsequent periods, all that a country will have to do will be to prove that the rate proposed is essential to the restoration of its basic equilibrium, internal or external, as the case may be. Thus, the scheme of the Fund provides, not for a system which, like the old gold standard, will be inflexible and inelastic and tyrannical in certain circumstances, but for one which is calculated to be rational in its working and flexible in structure and to allow for dynamic economic changes both internally and externally. It provides for international co-operation on a voluntary basis and in terms of reciprocity. And it will be able to exist and function, not as an absolute dictator issuing irrelevant and oppressive orders from above, but as a constitutional ruler acting within the framework of flexible rules and regulations based upon the free and deliberate consent of the members concerned.

Now, though gold is recognized under the scheme as the standard of currency, the standard itself will be a flexible one, because the parity of each unit of currency in terms of gold will be capable of alteration from time to time. Secondly, the predominant importance of gold as the medium of international payment will be considerably and increasingly diminished by the operation of the Fund. It is true that the status of gold as international money is allowed to be continued. It is also true that fortunate nations like the U. S. A., which possess an exceptionally heavy gold stock, will continue to have some special advantage in international economic transactions, because gold will continue to be a universally acceptable means of international payment under all circumstances. But the point of the scheme of the Fund is that it will create an elastic pool of national currencies, which will be acquired by it out of the initial quotas of the member countries or by subsequent borrowings and held and administered by it and lent out to such members as may be in need of international means of payment. What the Fund is designed to do is not to supplant gold altogether as a regulator of currency and credit and of economic conditions generally, but to create an effective substitute for gold in the form of a pool of national currencies, whose initial

size will be, say, 75 p. c. of the aggregate quotas of the members, *i. e.*, 6600 million dollars. But, should the production of gold fail to keep pace with the growth of economic activity, the size of the pool would be capable of being increased to any desired extent by the simple process of a uniform devaluation of all currencies in an adequate measure. Or should the large holders of gold not allow that gold to be properly distributed through the mechanism of international trade or short-term loans and thus tend to produce a deflationary pressure elsewhere, such a pressure could be averted by the purchase of foreign currency from the Fund or through an agreed devaluation of national currencies to the necessary extent. Thus, though gold is not altogether supplanted and though gold still retains a high status and great powers, the stage has been set for the development and application of ideas through which the status of gold could be controlled and its importance diminished to any desired extent.

In an ideal scheme of international money, there should be no necessity for the use of gold for the purpose of making international payments. Surplus balances of the creditor countries could be lent out for short terms to the deficit balance countries either directly or through the Fund, under proper safeguards so that the borrowing country could not use such loans for capital export purposes or for avoiding the obligation of restoring the external equilibrium at an early date. But that ideal scheme would not be acceptable to the U. S. A., which is the fortunate holder of perhaps 70 or 80 p.c. of the gold stocks of the world outside the U. S. S. R. And, again, many nations would be unwilling to support an international currency system, which would be based wholly upon the collective credit of all the nations pooled and organised through a Fund and which would be entirely delinked from gold, because collective goodwill and collective behaviour of the nations in the true sense of the terms have been so far rather non-existent and are still the unfulfilled aspirations of mankind. Consequently, so long as these factors have not actually emerged as an operative force in the terrain of international affairs, there must continue to be a residuum of doubt and uncertainty, and the proposed flexible link between gold and national currencies should be regarded as an insurance against the risks and uncertainties of a new international experiment launched forth at a time when the structure and contents of the international order to come are rather dimly and vaguely visible in the far-off horizon.

Due to these reasons, the authors of the scheme have not found it practicable to discard gold altogether. Besides the

fact that the parity of exchange of each member's currency will be fixed in terms of gold, there are other provisions of the scheme, which are designed to retain and maintain the importance of gold as a medium of international payments. In the first place, each member will have to contribute to the Fund in gold either (*a*) 25 p. c. of its quota or (*b*) 10 p. c. of its total holdings of gold and gold-exchange (in practice, dollar exchange), whichever is less. In the case of countries whose gold holdings cannot be accurately determined by reason of enemy occupation, an alternative gold figure will be agreed to by the Fund. Secondly, when the Fund is unable to acquire a sufficient quantity of a scarce currency through borrowings from a member country, it will proceed to buy it by the offer of gold. In this is also recognised the status of gold as the ultimate means of international payments and the basis of international credit. Thirdly, a member country will have the option to repurchase from the Fund any portion of its currency held by the Fund in exchange for gold, *i. e.*, when a country's debit balances with the Fund have become rather excessive. But, it is not clear why a country, which has gold to spare, should either allow itself or be allowed by the Fund to pile up excessive debit balances. On the contrary, such surplus gold is likely to be held by creditor countries, whose currencies are likely to become scarce in relation to the operations of the Fund. Fourthly, when a member's holdings of gold and gold-exchange exceed its quota, it will have to pay gold for half its total purchase of foreign exchange from the Fund. Here,again, it is likely that such a position will be reached by the creditor countries alone. And, if that be so, it will be open to them to settle their accounts with the debtor countries direct and not through the Fund. Fifthly, if a member's holdings of gold or gold-exchange are found to have increased beyond its quota with the Fund at the end of a financial year and if the Fund's holdings of its currency have increased beyond 75 p. c. of its quota, then the Fund may require the member to repurchase such excess of its currency in exchange of gold to the extent of 50 p. c. of its excess holdings of gold or gold-exchange. A case like this also is likely to be rare, because a country piling up excessive debit balances with the Fund is not likely to be one able to acquire excess gold at the same time. Consequently, it would appear that, under the third, fourth and fifth methods discussed above, the Fund is not likely to be successful to any appreciable extent in acquiring gold. And, finally, if a member country desires to acquire another member's currency either directly or indirectly for gold, it is expected normally to acquire that currency from the Fund by the sale of gold. This will not apply to newly mined gold. A case of this nature, where a country is either able

or willing to buy foreign currency in exchange for gold, is also likely to be quite infrequent in practice. The fact is that the U. S. A. and perhaps the U. S. S. R. are the only two countries which will start off with any appreciable holdings of gold or gold-exchange. Consequently, whether or not the Fund will be able to acquire any considerable quantities of gold beyond the original 2200 million dollars or thereabouts derived from the initial gold contributions of members will depend to a large extent upon whether or not the U. S. A. and to a less extent the U. S. S. R. are willing to place a portion of their excess gold holdings at the disposal of the Fund so as to strengthen the hands of the Fund in facilitating the orderly settlement of international balances. The few gold-holding countries might follow either the one or the other of two possible courses of action in regard to the use of their gold stocks. They might, on the one hand, use these stocks for asserting their economic supremacy over the world, as was done in the inter-war period. This policy would have a chance of success only if the world relapsed into a state of international anarchy, for in that case there would be a world of extreme uncertainty and instability and gold would acquire a high degree of liquidity premium. But, it happens that considerable gold stocks are possessed by only one or two nations, all the others being rather poor in gold. Consequently, it would be to the interest of the majority of nations to reduce the quantitative and qualitative importance of gold through a heavy degree of uniform devaluation and through an increase in the quotas of national currencies to be held by the Fund. In the event, gold will lose its status as the ultimate basis of international credit and also as one of the two means of international payments. It is, therefore, more probable that the gold-holding nations will follow the second alternative course which is open to them, *viz.*, to place the greater portion of their gold stocks at the disposal of the Fund, so that there may be no occasion for any heavy devaluation of gold due to its artificial scarcity or for any serious attempt to eliminate gold us a means of international payment. The history of the gold standard in the two periods of 1875-1914 and 1925-31 respectively has conclusively shown that gold can retain its status as the ultimate standard of international credit only so long as it is made freely available for the purpose of restoring international equilibrium and in no other way and that a policy of "freezing up" gold, though it may succeed for a while in creating an artificial scarcity of gold and acquiring enhanced value for it, is likely in the long run to defeat itself by provoking counter-measures of monetary autonomy and devaluation.

The scheme of the Fund is a compromise between the ideal

international money, based entirely upon the collective credit of all the nations, and the orthodox gold standard. It provides for a sort of half-way house on the road to that ideal international money, which will depend for its efficient working, not on the vagaries of the production and distribution of gold, but on the collective goodwill of the nations. The strength and stability of that collective goodwill will determine the exact strength and efficiency of international money. Should collective goodwill decline and decay, there will be no need for international money and it will die a natural death. On the other hand, should collective goodwill become tangible, vigorous and progressive, ideal international money, based on pure credit, will come more and more into its own, and gold may continue to enjoy its status as a valuable support and supplement to international money so long as it behaves sensibly and rationally or may altogether lose its monetary status and become a mere interesting relic of a romantic, bye-gone, monetary age.

IV

SHORTCOMINGS AND DANGERS

The two great wars and the experience of the two decades that lay between them have made it clear beyond any doubt that there cannot be any durable peace or steady and lasting prosperity for the world without continuous and many-sided co-operation among the nations based upon genuine and tangible collective goodwill and upon justice and equality and freedom that will arise out of that goodwill. The scheme of the International Monetary Fund is based upon the assumption of that goodwill and it provides for a working mechanism for translating that goodwill into actual practice in the field of international currency, exchange and trade. Its objectives have been defined in terms of the best ideals that could be conceived, and its operative principles have been set out in terms of the best judgment of the leading economists, bankers and statesmen. If it can be worked impartially and rationally, it can grow into one of the strongest pillars of the structure of peace and prosperity throughout the world. But, the scheme contains certain elements of weakness and instability, and it is necessary that the shortcomings of the scheme should be pointed out and their appropriate remedies suggested.

(A) ***Administrative Organization.*** So far as the initial size of the Fund, fixed at 8800 million dollars, is concerned, it would

seem that the amount would be quite adequate to the purpose of settling the residual balances of international payments on current account, because the Fund is intended to provide resources for the payment of such balances as, for some reason or other, would be incapable of direct settlement between the nations concerned. The aggregate volume of world trade on the average of the three pre-war years, 1936-38, was 48,000 million dollars, and that of the United and Associated nations alone was about 41,000 million dollars. The initial size of the Fund has, therefore, been fixed at between one-fourth and one-fifth of the aggregate volume of the trade of the member nations, which should be sufficient for the purpose for which it is meant. But, it is in the distribution of the amount among the member nations in the form of quotas that a conflict of opinion has arisen. On a rational view of the matter, it would appear that the best criteria for determining the size of the quota for each nation should be the volume of its total trade, the number of its population, and its national income. But these criteria would have given a comparatively high quota to the United Kingdom and rather low quotas to the U. S. A. and the U. S. S. R. respectively. The difficulty in that case would be, first, that the dollar resources of the Fund, which will continue for many years to be in overwhelmingly strong demand, would be insufficient from the outset, and second, that the quota of the U. S. S. R. would entitle her to have a rather small voice in the administration of the Fund, which would be inconsistent with her status as one of the leading powers of the world. The quotas that have been fixed up are 2750 million dollars for the U. S. A., 1300 million dollars for the U. K., 1200 million dollars for the U. S. S. R., 550 million dollars for China, 450 million dollars for France, and 400 million dollars for India. The other quotas in millions of dollars are: Belgium 225, Canada 300, Australia 200, Netherlands 275, Brazil 150, Czechoslovakia 125, South Africa 100, Iraq 8, Iran 25, Iceland 1, Greece 40, Ethiopia 6, Egypt 45, and Liberia ½.

The discontent over the distribution of the quotas has primarily arisen, because the voting powers of each nation and its share in the administration of the Fund will be governed by the size of the quota. The U. S. A. quota is greater than the combined quotas of the U. K. and the U. S. S. R. and also greater than those of the U. K., the Dominions and India put together. The U. K. quota is greater than the combined quotas of India and China, which contain about half the population of the entire world. Naturally, many of the nations are likely to feel that the quotas have been determined largely by refer-

ence to political powers and not so much by reference to relevant economic factors.

The allocation of the quotas, in its turn, has determined the distribution of seats on the Executive Committee of the Fund, which will be the real governing body of the Fund. The Executive Committee will consist of 12 members, five being permanently allocated to the U. S. A., the U. K., the U. S. S. R., China and France, two to the South American Republics, and the remaining five to all the other member nations put together, these last seven members being elected by proportional representation. Each member shall have 250 votes plus one additional vote for each part of its quota equivalent to 100,000 dollars. There will be a Board of Governors, who will decide the larger questions of policy. It appears that, while each member nation will be entitled to have one representative on the Board of Governors, their voting powers will be related to the quotas of the nations they represent according to the formula given above. The Managing Director, who will be the chief of the operating staff, and his assistants, will be appointed by the Executive Committee. The operating staff will be selected by the Managing Director in accordance with the regulations established by the Executive Committee.

Due to the extreme inequality in the distribution of voting rights in the constitution and management of the administrative authority of the Fund, several nations including France, China, India, Egypt, New Zealand, Greece, Iran and Netherlands have made reservations regarding their quotas, which they feel should be greater than what they are. There is a widespread feeling, almost amounting to suspicion, that the pattern of the Fund's administration is calculated to perpetuate the old injustices and inequalities in the relations between the different nations and that it will provide a very bad model for the organization of other important international institutions like the proposed International Bank or the Council of International Government. After all, the Fund is not a joint-stock company or commercial corporation, and there is no reason why the voting rights and administrative powers should be linked to the quotas. While the quotas should be determined by relevant economic factors such as the volume of trade, national income, and holdings of gold and gold-exchange, voting rights and administrative powers should be distributed with a greater regard for the principle of equality of nations than seems to have been the case.

(B) *Transitional Arrangements.* The scheme of the Fund provides that, during the immediate post-war transition period

which may be three or five years or even longer, a member country may obtain exemption from carrying out important obligations such as (*a*) the abolition of exchange restrictions and multiple currency practices or discriminatory currency arrangements and (*b*) the adoption, and maintenance of the free convertibility of its currency in terms of other members' currencies. It is true that the conclusion of the war will leave many member countries with a heavy load of war-time indebtedness, which may make it difficult for them to undertake those obligations till suitable arrangements have been made for its orderly payment spread over a reasonable period of years. The amount involved may be a matter of prolonged controversy. It may prove excessive in relation to the current national income and surplus balance of the debtor country concerned. Or, the conditions of international trade may be such, *e.g.*, a movement towards self-sufficiency or a tendency towards high tariff barriers, that the debtor country may find it simply impossible to maintain the service of its war debt without an extreme reduction in its standard of life. Such contingencies may altogether lead to a complete breakdown of the mechanism. But, if a number of important countries like, say, the U. K. or France should find it necessary to ask for exemption from carrying out the obligations regarding the abolition of discriminatory or multiple currency practices or the free multilateral convertibility of their currencies, what purpose can the Fund serve during that transition period ? The main purpose of the Fund is to abolish such currency and exchange practices which are definitely opposed to an international order. Therefore, if a number of important members are given the liberty to continue those practices, what inducements will be left to the other members to sacrifice the national autonomy which is implied by the right of such practices ? And, again, may not the continuance of such practices by a few leading nations set a contagious example and create a cumulatively vicious atmosphere which will be quite inimical to the growth of that collective good-will which must be the basis of international co-operation in all the spheres, political, economical, and financial ? Here, therefore, must be recognized a dangerous loophole in the scheme of the Fund, which must be stopped from the outset. Before the Fund is brought into existence, the conditions for its smooth operation in all cases must be created, which would demand that the question of war-time balances and debts must be settled in a manner satisfactory to the parties concerned. That task is bound to be an extremely delicate and difficult one. It will be well for us to remember that the peace movement at the end of the last war failed, among other reasons, due to the

absence of a satisfactory settlement of war-time obligations and the complete uncertainty and confusion that followed in the wake of the bitter and prolonged controversy that raged round the question. It will be definitely a bad strategy for the leaders of the peace movement to by-pass the outstanding financial, economic and political problems that have been thrown up by the War. They have to be confronted and solved in a spirit of justice and fairplay for all and thus cleared out of the way before even the first great step forward towards a healthy and vigorous new order can be taken with any hope of success.

(C) *India's Sterling Balances.* Apart from the considerations discussed above, there are other strong reasons why the problem of India's war-time balances must be settled in a reasonable manner before the Fund is started. In the first place, it is an important political question regarding the proper economic relationship between a dominant country and a subordinate one. Unless it is settled in a manner calculated to promote a rapid and comprehensive economic development of India, so far as is possible, then the belief in the theory of force and exploitation will persist and it will impede the growth of collective good-will in the fullest sense of the term. Secondly, it is a moral question, involving the redemption of the pledged word of a strong and leading nation to a weak and subordinate nation that every pound oft he sterling balances will be paid. Any failure to redeem the pledge will go a long way in shattering the very foundation of peace, which is mutual confidence between nations. And, thirdly, one of the avowed purposes of the Fund is to help raising the living standard of people in different parts of the world. All fair-minded men must agree that a prompt repayment of a substantial portion of the balances will be of great help to India in launching an adequate plan of economic development so as to raise the distressingly low living standard of her people. An early settlement of the problem must, therefore, be attempted, first through mutual negotiations, and failing that, through some international board of conciliation or arbitration. In any case, India expects that a large part of the sterling balances should be available to her for the purchase of capital goods required to carry out her basic economic plan. And the matter for decision through negotiation, conciliation or arbitration should be as to what proportion of the balances can be freely converted into world purchasing power in the first ten or fifteen years, what part should be payable in terms of selected capital goods from Britain, and what part, if any, should be converted into a long-term debt.

POST-WAR INDIAN ECONOMIC DEVELOPMENT*

BY

PROFESSOR S. K. RUDRA, M.A. (CANTAB.)

I believe the objective of all those who are concerned in thinking and planning the economic structure of India of the post-war period—Government and different members of the public alike—have the common objective of ameliorating the condition of the people in general, and of the under-privileged in particular. All are impressed by the chronic poverty of the masses, their abysmal ignorance, and drab and colourless lives, cut short by disease and filth. The annual population increase, with inadequate increase in the means of subsistence, adds on to the toll of economic distress. The unequal distribution of wealth, mostly the result of vested rights in land, and immovable property, the accentuated inequality of opportunity, the complete absence of social security, to meet the exigencies of life particularly unemployment, invalidity, and old age make the lot of the common man hard indeed. Thanks to indigenous and ancient institutions, customs, traditions and religious philosophy, still lingering on amongst us, life is livable, and indeed even enjoyable, at any rate, for some part of each one's existence. It is to change this sorry state of affairs for the better that, Government and people are re-orienting their mind in the direction of economic and social well-being. The objective is to provide a minimum standard of life for every man, woman and child born. The endeavour is that he be sufficiently fed, adequately clothed, decently housed, tolerably educated, and, if possible, be secured employment throughout his working life, be amused during leisure periods and be cared for when ill and old. To take adequate care of the individual from the cradle to the grave, will naturally take time. But it is agreed that with our given and varied natural resources with proper direction, adequate financial assistance and technical guidance, the objective can be gained over a period of years. Example of Russia encourages us to entertain such hope. Our problem, however, is unique. It is, in some respects, more difficult than of the oft-quoted country. Neither do I presume we desire to follow the Russian experiment in all its course and details! We must therefore admit that as far as the main objective of economic development is concerned, there is general agreement all round. There is, naturally, considerable differ-

* A paper read at the 30th Anniversary of the Chanakya Society, Patna University.

ence in emphasis upon certain aspects proposed in the various schemes now before the country.

The next question that needs examination is that of method or system that is to be devised to secure the desired end. I think it is clear to all that apart from the requisite mechanics of economic development, there must be the necessary social power that is to be the driving force behind all schemes of post-war planning. Merely to have more to eat, to wear and to enjoy, while in itself an essential pre-requisite to any type of creative culture and civilized existence, is by itself not sufficient. One thing above all is clear that India as a whole, whatever be the regional views, does aspire to rise to its full stature in terms of human dignity as a nation, equal and free as any member of the United Nations group. We hope that India's great part in this war, given liberally in terms of material and men, will secure for her, more rapidly than we anticipate, the ardent goal of all communities that reside upon its soil. If such power comes, whatever form it takes—socialistic, communistic or controlled capitalistic, will, I hope, be settled in a parliamentary and constitutional manner. Whatever be the form of Government, it must command the confidence of the people. Otherwise the vast programmes envisaged will not be easy to fulfil. This point must be fully grasped and understood. We cannot impose upon the people, beyond certain limits, these schemes, as by force: Democratic principles would stand opposed to such dictatorial methods. Drive is needed, but it must be with the acquiescence if not with the active support of the people.

In respect to our peasant population this will be particularly desirable. While docile to a degree, the peasant is mulish. He can be driven, but only up to a point. Even the powerful Lenin had to go slow with the Kulaks and the Mujiks. We have the example of Afghanistan under Amanullah, and in many ways, our peasant folk are not dissimilar in their mental make up from their brethren across the frontier. Ultimately, it is the peasants who control our economy. We should recognise this fundamental fact. They lie at the foundation of the economic structure of India. The peasant mind, to my way of thinking, is something elemental to our very existence. We, city-dwellers and planners, must realize and admit this fact to ourselves. It is then only, in my judgment, that we can proceed at all with our various grandiose schemes. We must therefore seek to secure the willing and, if possible, whole-hearted co-operation of our peasant community. Russia and Turkey succeeded because their leaders in the main could rely upon the

acquiescence of the peasant population. The peasant mind is not such a blank nor such a closed apparatus, as some would have us believe. It is essentially a realistic mind. It can judge good and evil shrewdly and precisely. But, alas, it is also a highly suspicious mind. It will examine our various schemes and projects, with deep imbedded suspicion. Indeed, he will react in the first instance, almost in a hostile manner. He has been so imposed upon for generations that he regards every one, in the first contact, as one who has come to exploit him in some form or the other. This attitude of mistrust of the peasant, must be converted to one of trust and confidence. It is an indispensable pre-requisite to all post-war operations. This is basic. Otherwise, it may well be that all our plans for say spread of literacy or improvement of rural sanitation, may meet with silent, but stolid opposition. Friction may be engendered, and progress retarded. Serious and all manner of untoward developments may take place. It is essential therefore to secure the friendship of the peasant population. The tempo and quality of our work will much depend upon this. The authority that will secure that friendship and that trust, will be the body that will be the most successful in carrying out the schemes.

It may be pointed out that even in a country so well educated and advanced as the U. S. A., in launching out the T. V. A. (Tennessee Valley Authority) scheme, took considerable pains to enlighten the minds of the people concerned and to enlist their support. American authorities maintain that without such preparation of the mind and creating a sentiment in favour of their scheme, the experiment would hardly have proved as successful and acceptable as it has been.

In order to keep active and alive the interest of the people, some form of democratic or even socialistic type of organisation is indicated. With the Webbs, I would like to regard functional democracy as a possible system. Snags and shortcomings of functional control could be adjusted, by well-known constitutional devices. Democracy at the grass roots, a method so successfully operating in the T. V. A., is in the last analysis, not foreign to our genius. After all, the village Panchayat tradition, though very much weakened, by modern notions and circumstances, has not altogether disappeared from the rural areas. If we wish to bring real uplift to our rural masses, and do not wish to treat them as mere robots, to receive so much of goods and services as their due, we must revive these Panchayats, both functionally and territorially. This should not prove impossible of achievement. I admit that for some time, the Panchayat system may be feeble in its functioning

Patience would be needed. Mistakes, hardships and even possible injustices will have to be tolerated. By disuse muscles go slack in the human body, so with social institutions. But the sap of life is there still in these ancient village units of ours. Given due responsibilities and powers, there is no sound ground to doubt their rejuvenation. They will pick up strength and power as they proceed in their work and will bring much needed cohesion into our disintegrated rural life. These Panchayats will be the best able to harness that local loyalty and obtain that appreciation of immediate conditions that are so often overlooked or under-rated by dictatorial or highly centralised control. Hence the Gandhian way of decentralisation, in some spheres, is full of possibilities, especially through the revival of the Panchayat system. In the urban areas too, probably through trade union organisations, professional associations and the like democratic control could be developed and further strengthened. If we can secure the active support of democracy at the grass roots, we can put real life into these post-war schemes. Otherwise they will remain mechanical and miss their essential purpose.

It is therefore necessary that public support should be enlisted in behalf of these plans. I may say that the United Provinces Government, under His Excellency Sir Maurice Hallett, one time Governor of the Province of Bihar, gave the lead to the rest of India in setting up a Provincial organisation for post-war reconstruction. It enlisted, through various Committees, the benefit of well-informed criticism, from men and women of note, from different walks of life in the Province. I may add that comprehensive schemes are being prepared by officials of ripe experience and competency, with commendable industry. When these plans are ready, I have no doubt that they will be released to the Committees for their examination and due modification. Government can have nothing to conceal in these matters. In fact, wide publicity would be to the good. Much more of scrutiny and criticism from various angles is desirable. After all, it will be the tax-payer who will be called upon to foot the bill, either directly or indirectly. Both the present and the future generations of the public are intimately concerned. Taxes may be enhanced. New taxes may be imposed. Loans may be raised, at home and abroad. Whether sterling balances are liquidated, sooner or later, bilaterally or multilaterally, through currency convertibility, or through channel of consumers' goods, or producers' goods, or supply of services from Great Britain, much money will be needed for the financing of these schemes. These loans will have to be serviced. Ultimately, they will have to be repaid. So, the

tax-payer will have to bear the burden. According to well-accepted British democratic principles "No taxation, without representation" implies that all these schemes, costing crores of rupees, must come for public scrutiny by the peoples' representatives. I think all fair-minded people will agree the Government have and will in increasing measure, as the schemes mature, subject these schemes to public discussion. The public are sceptical and even suspicious minded, about these schemes. I admit this frankly. However, all that I can say at this stage is that when these schemes do come to view, examine them. Till then suspend judgment.

Having said so much from the democratic point of view, I am simultaneously of opinion that once public policy has been laid down and the schemes accepted, the execution of the schemes should be kept in bureaucratic hands. Democratically designed and bureaucratically executed, seems to me to be the most suitable method that would give the most satisfactory and rapid results. Even if we work within the framework of a capitalistic system, there would be certain industries and services that by their nature and technicalities, would be supplied by the State, or Public Trust or Corporation or by special public authority created for the specific purpose. Public utilities and basic key industries are largely of this variety. This is to be noted that the Second Part of the Bombay Plan itself supports such a system of economic organisation. This is significant. It is a welcome move in the right direction. We shall in this regard have to develop the Germanic Cameralistic sense. Probably a new range of Technological and Economic Civil Service will have to be evolved and appointed. All type of technological work should be left in the hands of those who have the necessary training and capacity. Even in Russia, I believe the position has gravitated to this position. Democratic interference, especially in the matter of appointments and placement of orders and contracts will have to be kept at the minimum. Private profit motive, undoubtedly, left to itself, has not led to paradise on earth. Under State control, if not under State ownership and management, it should be possible to combine efficiency in productivity, with ensuring simultaneously the interests of the consumers, and the welfare of the workers concerned. But enhanced production is the imperative need of the country. No drastic action should be taken to retard its flow. Hence, much scope should be left to private enterprise in the country.

It has to be recognized that Indian economic development being at the stage at which it is at present, it must be frankly

mentioned that much will have to be left to private, joint stock and co-operative effort. The State in India has not the set up, neither the personnel, nor the capacity nor the experience to grapple with all these vast and highly complicated problems of economic development and social reshaping as is envisaged in the various plans. Private enterprize therefore must not be impeded or unduly shackled. It should receive studied encouragement.

The determination of priorities is the next important question. We must admit that the first requisite is to increase all round the quantum of production. Basic needs must come first. Supply of food, clothing, housing, education, and so down the range of wants, will have to be increased. By technological means known to man, and sustained scientific research production from land and industry can be much enhanced. Various targets have been mentioned by the respective Plans before the public. Culturable waste land and eroded land, can be brought under cultivation or afforestation, and yield per acre can be much improved. Irrigation, farm yard and artificial manures, better seeds, consolidation, cattle improvement, rationalization of industry, development of cheap hydel power, proper location of industry, development of all types of transportation, improvement and extension of credit and marketing facilities, encouragement of cottage industries in processing and production of various commodities, husbanding of foreign trade and the like are all much needed ways of effecting economic betterment. I need not, indeed, cannot within the time at my disposal cover the entire field. Students of Economics, however, well know the range that is implied. But, to my mind, the first priority is to train up necessary technological skill in all fields, economic, educational, medical, engineering and the like. That is the matter of first priority. This is our bottle-neck. The Russians too were severely handicapped in their Plans by this lack of trained personnel. Indeed, we cannot accomplish the many things we aspire for, unless we possess the required trained staff. Lack of trained women will, also in some respects, be our limiting factor. In the field of education alone, for instance, the Sargeant Scheme speaks of women teachers. His estimate of staff for pre-Basic, Junior Basic, Senior Basic, and High Schools is well over two million teachers. In other technical and engineering lines, afforestation, mining, electrical, transportation, metallurgical and the like, the demand for trained personnel will be heavy indeed. There is, therefore, little wonder that Sir Ardesher Dalal is so concerned about this matter of training of the personnel. It is at this point in particular that our educational, engineering, technical institutes, Universities and

research organisations, have a heavy responsibility placed upon them. Universities must take rapid stock of their facilities. Resources, equipment and staff should be marshalled to provide for necessary technological instruction and training. Rapid action is necessary. Plans should be prepared autonomously and placed before Government. I was interested to read the other day of the vigorous steps that are already being taken in Australia to overhaul completely the entire system of training in engineering and technology in that country. I understand that the University of Bombay and the Victoria Jubilee Technical Institute already have schemes under examination for re-orienting their courses of instruction. Other Universities too must be similarly occupied. Scope for technological research at the Universities and the means to achieve it, must be systematically and generously provided both by State and Industry, guaranteeing at the same time, autonomy of action to the Universities or scientific and academic bodies. We can, of course, and must import foreign technicians from abroad, if we can secure them. We must begin even now before the war is ended. Supply will not be too plentiful. But the effort should be made. We have noticed that some far-seeing industrial Houses in the country, have already concluded negotiations in this respect with foreign concerns. We should also secure provision for training abroad. Evidently, this is not so easy to secure as we had at first hoped it would be. So herein lies our supreme difficulty. That we have the requisite material to train up, I think cannot be doubted. In our industries, on our railways, in the Army, Navy and Air Force, in Ordnance and Munition factories, we have sent in our young men and they have given an excellent account of themselves. We have the capacity, undoubtedly. We need the opportunity. We must provide it, otherwise we shall fail in our obvious duty.

Next to the supply of technical staff, is the imperative need of capital goods. It is obvious we cannot produce these, with any degree of efficiency, for some time to come. But we can, and must, make a beginning somewhere. It is heartening therefore to read that essential capital goods like locomotive engines are beginning to be constructed in the country. Shipbuilding has already started in a minor way. Given requisite amount of protection, and State patronage, rapid progress can be made. But it is a matter of negotiation with foreign concerns and this will not be easy of achievement. Give and take policy will be much needed. Our public men will have to accept this in a statesmanlike attitude. Our businessmen, I believe, are alive to such need of reciprocal dealings.

The next point I would like to mention, unhesitatingly,

is that the country should do all it possibly can for the men who have actually fought and bled and enhanced India's already high reputation in the field of battle. They have earned special claim both upon the Government and the public. There is no doubt that Government will stand by them. So should the country. After all they are the sons of the soil, as much as any of us. They are keenly patriotic. They are also highly sensitive. Nothing should be done to alienate them from the rest of the community. They will be the spear-head of much energetic and active work, in several directions, in the rural and industrial life of the country. We should welcome plans and schemes on their and their families' behalf, for indeed they are flesh and bone of our body politic.

Next to the soldiers, I would myself give first priority to spread of literacy amongst children and adolescent women. I am not too enamoured of adult education for the male. He can take it or leave it, as he wishes. But I think it would be a grievous mistake if we neglected the education of our adolescent and adult women. I know the difficulties surrounding successful accomplishment of this task. It is not easy in the first place to secure women of sufficient training. In the second, it is still more difficult to induce them to bury themselves in our villages. Social life is dull. Worse than that, there is great lack of personal security for our isolated women workers in our rural areas. The salaries too offered are so meagre that decent living is made well-nigh impossible. But there are problems that are not insoluble. Given the necessary will and determination these difficulties can be met. It is an aspect of work that we cannot neglect. For it is obvious it is in the hands of these young mothers that the development of the immediate generation lies. Education need not be of the slow and stereotype variety that you and I or our sisters have received. Much wholesome instruction in Baby Craft and Home Economics can be imparted without the slow and tearful process known to most of us. It is here that our educational psychologists and experts must apply their thought and set up proposals that can be taken in hand. We would save a generation in time, if we concentrated our efforts on these women. Educated and enlightened mothers will be a power in our villages. They will make for progress that it will not be easy to visualise. More than half the battle lies in getting the mothers behind the schemes for all manner of nation-building projects. In China, in Russia, indeed in every country, women have in their silent, but sure fashion, given the energy and the impetus to all these liberating and progressive tendencies in the world. If we had surplus resources, staff and equipment, I would

advocate male adult education too. But we must husband our very meagre resources. We cannot spread ourselves too expensively. With our limited resources and revenues, we must like the traditional Marshalian house-wife make the most of what we have got to meet our several urgent needs. I would therefore give schemes for women high priority. May I quote from Dr. Hewett Johnson, the Venerable the Dean of Canterbury's thought-provoking book, "The Socialist Sixth of the World"? He writes:—

"Owing so much to a singularly happy home, and to the wisest of mothers, I can conceive of no social order as healthy in a high sense which was denied those things as the basis of life; which lacked cultivated homes, and capable, intelligent, public-minded womanhood, living in complete equality with men of the home........Thus it was that, later, when I came to examine modern Germany, modern France, or modern Russia, the first question that I asked related to the home and to womanhood."

Another aspect of the question I would like to mention for our special consideration is the matter of location of industries. Due to a variety of reasons, which all students of Economics well understand, the locational factor has assumed great importance in recent times. I think the Economists are agreed, and Dr. L. K. Hyder of Aligarh in his Presidential Address to the Economic Conference recently held at Delhi, made it manifest that, the economic unity of the country has to be maintained and accepted as such. Indeed, he thought that we should cast our minds even wider afield. Be that as it may, while we must take India as an indivisible unit, I believe effective and more rapid development would come by way of regionalization. Already I have mentioned the fact of dearth of technical staff, lack of equipment and limitation of resources. So that we cannot embark upon a scheme of broadcast development of the entire country all at once. We should have done so, if we could. But we must use our means to best advantage. Admittedly, our greatest dearth is lack in power resource. It seems obvious that we should develop these to full capacity. I may be permitted to say that in the United Provinces, Sir Maurice Hallett has concentrated most industriously in the examination of the possibilities of developing cheap hydel supply in that Province. Indeed, he has called it his "Himalayan Dream". It is, therefore, along the great river regions of India that our programme should proceed. Even so wealthy a country as the United States of America, is doing so. Having started the T. V. A., and worked it successfully,

they are now planning to start in another region similar schemes and will start what is called the M. V. A.—the Missourie Valley Scheme. Russia did the same. Its operations were, however, on a wider scale, for obvious reasons, which have proved their worthwhileness in this war, beyond doubt. Our reasons are no less emergent. But our circumstances, however, are not similar to Russia. So we must, it seems to me, proceed regionwise. Cheap hydel power supply will be a boon to the community. It can, under an able and energetic Development Directorate, and with people's active support, accomplish much in short space of time. If the nomadic tribesmen across the Ural mountains of the Russian Steppes and Arctic Region, as in Birobidjen Republic and other Eastern Soviet Republics, can accomplish such progress, I personally do not consider it at all an impossibility to achieve approximately similar results even in this country. We have every indication that we can. We must have faith in our own capacity. That faith will help us to move mountains, literally, if necessary.

The next point I wish merely to mention, though I think it is hardly necessary at this time of the day to do so, is to plan for creating a balanced economy in the country. We are all students of Frederick List and many of our own scholars. All these and industrialists and economists for long time have insisted on this balanced development of our economy. We know enough of contemporary history of other countries in the world to appreciate and understand the importance of this need. Even Australia, during the very pendency of this war, has emerged as an important manufacturing country. Unless we develop our industries, we cannot afford relief to our agriculture. The very prosperity of our agriculture, for which we are greatly, and so rightly concerned, is linked intimately, with the progress and prosperity of our industry and commerce. For other reasons too, especially of a military character, we need must develop our large-scale industry. Even in the Gandhian Plan, place is accorded to what is called Defence Industries. Whether this particular item in the Plan is in keeping with non-violence, I am not competent to pass judgment, has received Mahatma Gandhi's personal assent, I do not know. But personally, I am not sure whether the world appreciates the philosophy of non-violence. I myself feel that neither India nor the world is yet so convinced. Defence must lead to offence. So evidently, military preparation is inevitable.

We must, however, recognise that while every reasonable effort should be made to establish large-scale industries in the

country, the major share of productive activity will remain with small-scale and cottage industries. With cheap hydel power, abundance of local raw material, artistic skill and cheap labour, improved means of transportation and the strength of local taste, and preferences, these should continue to play a great part in supplying the needs of the population. From the strategic as well as from the civic aspect of health and beauty, rural regeneration of the countryside appears to be powerfully attractive. We may not go as far as Gandhiji would wish us, but his scheme cannot be wholly brushed aside as primitive and out-of-date. Concentration and ugliness of towns and cities must be avoided at all costs. Indeed, our villages too need planning themselves. We should provide for better rural houses and other civil and recreational amenities. We must also recognise the fact that large-scale industries, even if rapidly developed, cannot absorb but a fraction of our total adult population. It is in the lighter industries such as food processing, and consumption goods industries to meet the simple needs of our people that our small-scale and cottage industries can play a great part. In many cases, they will continue to be carried on conjointly with the traditional agricultural pursuits of the respective families in their village homes. We must therefore direct our technological ingenuity to proceed with what has been termed "Cottage industrialism." Electric power, hydel or thermal, should be of much assistance in this to take off block loads. Requisite small cost machinery, appliances and equipment should be provided. I may say that the International Harvester Company of U. S. A. is now engaged upon designing and manufacturing implements and tools needed by the small-scale farmer and craftsman. Japan, we know, led the world in the equipment of its ubiquitous cottage industries with such machinery. There is no valid reason why this should not be effective in India.

I believe no scheme of planning will satisfy the people which eschews the problem of social security. The best security, naturally, arises from the fact of providing gainful occupation to the citizens throughout the workable period of their lives. But such a system of economic stability cannot be yet worked out in this country. Our unbalanced economy depends too heavily upon agriculture as its major source of livelihood. Agriculture in India, for the present, is largely conditioned by climatic factors. These are proverbially erratic. But on the one hand, we should, however, provide for industrial depression and unemployment. We should lay out our plans, with care and moderation, after due study. On the other hand, agricultural unemployment, or more truly seasonal under-employment should

be met by public works programme, if technically these can be launched, whenever these periods of seasonal and cyclical agricultural depression. Apart from this, I would urge the serious consideration of old age pension scheme and the creation of invalidity insurance fund. Much data and statistical work by economists and actuaries would have to be undertaken before the State could take action. But these two groups, namely, the aged and the permanently disabled categories, undoubtedly, need consideration and support at the hand of the community. The problem of contribution, means test, age, sex and administration are important matters that will have to be examined and worked out by competent authority. Government have already, it must be acknowledged, taken careful consideration of this matter of social security in some of its aspects. All such schemes are costly. As productivity accelerates, and surplus margins grow, equity will demand a better process of distribution. Even the Second Part of the Bombay Plan recognises the need for such social security provision.

We should it appears to me build upon the foundations of our ancient Joint Family system, before it altogether disintegrates under the onslaught of modern notions of egotistical family life on the one side, or the stress and strains of a highly mobile economic system on the other. We should also direct the flow of undoubted charity in our land through various religious orders and institutions into more rationalized system of social relief. Much is possible on these lines. The religious authorities of the country should be awakened to these needs. They wield great power and can render much good.

All this social security provision may incidentally suggest population planning. While, academically, it furnishes a fascinating study, practically, for the vast masses of the population, for whom it would presumably be designed. I am of view that for the present it would not yield any satisfactory or appreciable results. We must allow the general improvement in civic sense, increase in levels of standard of living and education to take their own course in this matter.

One outstanding fact in the entire situation cannot be neglected, and that is the international aspect of the problem. No country, much less ours, can live in isolation, even if we wanted to do so. I believe India desires to take her full share in world affairs, as well as in world trade. This naturally implies export and import, both of the visible and invisible variety. But there is one fundamental condition. We suggest that we be permitted to shape our course of action dictated by

our own economic situation. We wish to have a place in the markets of the world, not only for our raw produce but also for such manufactured goods as we can export at competitive international prices. We ourselves admittedly provide a large, but so far a market of low consumption power. With every increase in our own earning capacity, we shall increasingly, become a more lucrative market. For instance, it is known that Germany was England's best customer upon the continent before the War. So British and other foreign people should not view with alarm the growth of Indian industry manufacture and shipping in the country. All this development will provide them with more trade than they will know how to handle. But psychologically and otherwise, chiefly due to vested interests, comprehension in this direction will be slow. Yet we must stand out for fiscal autonomy. Naturally, our commercial treaties will have to be compatible with full participation in international dealing from the point of view of the world as a whole. Mutuality and reciprocity is the approach to participation in world trade and not autarky that we should always keep this in mind. It will benefit both us and those who agree to commerce with us.

I have faith that the best brains of all countries see this. Since England and India are particularly and historically connected with each other, it is our hope that after due discussion and deliberation, honourable conditions will be worked out which will redound to the mutual good of our two peoples and the profit of the world at large. We of the Universities, at any rate, should address our minds to the study and discussion of these problems in this spirit.

THE INHERITANCE TAX IN INDIA

BY

GYAN CHAND

The Provincial Governments since the introduction of Autonomy have, by the force of circumstances, been driven to levy new taxation ; but these measures, with two exceptions, have aggravated the present unsatisfactory position from the point of view of the distribution of tax burden in India. They have made the tax system even more regressive than it was before--increased the tax burden of the poorer classes In extenuation of their policy it can be urged that since they have imposed new taxation for beneficent measures, like rural development, primary education and prohibition, the increased tax burden, which their policy has thrown on the vast majority of the people, has its compensation in the benefits which the expenditure of the proceeds of the new taxation will confer on them. This is the extenuation of the tax policy of the Provincial Government, but cannot justify it. For its justification they have to show that they have, within the limits of their power, done their best to develop tax-revenue not regressive in its incidence, and having exhausted the possibilities of such sources, they have had to levy the less desirable forms of taxation for the benefit of the masses.

This justification, I am afraid, cannot be put forward by them in their defence. The two exceptions referred to above are the Agricultural Income Taxes of Bihar and Assam and the Urban Property Tax of Bombay. These are measures of progressive taxation. They taken together are also marked by lack of fiscal courage or earnest desire to redress the balance in favour of the masses, for they are halting and inadequate and not expected to be very productive. But taking into account the keen opposition, in spite of which these measures have been enacted, they have to be regarded as progressive measures and the Provincial Governments concerned are entitled to credit for having placed them on the statute book. The Employment Tax Act passed by the U. P. legislature could also have been included in the list of progressive measures but for the unfortunate fact that the prospect of its being put into operation has become rather remote on account of the war situation. The U. P. Government has undoubtedly a very good record of progressive measures to its credit and the Employment Tax would have increased it but for the fact that the future has become very

doubtful owing to the circumstances which are not of the making of the U. P. Government.

But excepting the above measures, the other taxation measures of the Provincial Governments are open to serious criticism on the ground that they place the burden on the shoulders of those who are already carrying more than their fair share of the tax burden of the country as a whole. The extremely regressive character of the Indian tax system is a defect which cannot be easily rectified. It is the outcome of the inability of the British Government in India to keep themselves abreast of the modern developments of fiscal theory and practice and their solicitudes for interests on whose support they depended for the continuance of their rule. But if our national life is to develop on lines in keeping with the present conditions and needs, it is of vital importance that we should make swift and steady efforts to remedy this outstanding defect of our tax-system.

The new situation created by the war will bring its own financial problems and the developments, which will take place, will be determined by its duration and the conditions, national and international, under which it will have to be carried on. But important developments can well be expected. The last war increased greatly the relative importance of the income tax and customs in our tax system. This war will increase further the importance of the income tax and make the imposition of the new taxes unavoidable. Among the sources, which have yet to be developed in this country, the inheritance tax is one whose introduction has been long over-due. It is a significant and depressing fact that under Provincial Autonomy no Provincial Government has made an attempt to explore the possibilities of imposing this tax. In the Dyarchy period the Governments of Bengal, Bombay and Madras gave the matter serious consideration and bills were actually drafted which, however, did not go beyond the proposal stage. The Provincial Governments have in the new phase of the constitutional development not even seriously considered the proposals and the initiative taken by the Government of India in placing the matter before the Provincial Governments has come to nought owing to the indifference or opposition of the latter.

But the matter cannot rest there. The war will, as stated above, make important fiscal developments inevitable and the imposition of the inheritance tax is a measure which cannot or rather should not be put off much longer. It appears that during the war periods the popular Governments will either be in eclipse or have to tow the official line. If that happens,

the British Government will once again be thrown back on its fiscal conservatism which has been the main reason for the inheritance tax not having been levied in this country for over 70 years in spite of the proposal having been revived time and again. The British Government less sure than ever of the genuine popular support for its position is likely to be extra cautious in its financial policy.

Notwithstanding these circumstances, which are distinctly unfavourable to the levy of the inheritance tax, it is possible that the necessity might override these considerations and place this tax on the approved list of war-time financial measures. The custom duties have, it is well known, been already raised to the limit of their productivity in most cases and their further development, though possible within certain limits, cannot be an important factor in the expansions of revenues. The income-tax rates in India are very low and though they are not likely to be raised to the level of the rates, say in Great Britain, their upward revision will be unavoidable and can be made fairly productive. But among the untapped sources of revenue the inheritance tax is, with the increasing strain of war, likely to force itself upon the attention of the financial authorities and may, if the need for additional revenues becomes imperative, have to be introduced in spite of the otherwise unfavourable circumstances.

In the above anticipation it is not overlooked that the inheritance tax is in the new allocation of resources meant to be a provincial source of revenue. Owing to the unfortunate division of the tax into tax on landed property and on the property other than land, which introduces a new complication referred to below, initiative in the imposition of this tax has to be shared between the Central and Provincial Governments; but as the Central Government is, it appears, going to be the dominant partner in administration, this division will not present serious difficulties in the way of its imposition. The proceeds of the tax, it is true, are under the present arrangement to be assigned to the Provinces; but apart from the fact that the Central Government can levy a surcharge of its own for its own purposes, during the war, it has to be realized, the development of the Provinces cannot come to a standstill. Provision of additional funds for provincial purposes will have to be regarded as much a war-time measure as their provision for direct prosecution of the war. In India in finance, as in other matters, we are going to have both internal and external fronts and imposition of the inheritance tax will probably become a measure of defence and consolidation on the internal war-front.

If the events take this course, a progressive measure like the inheritance tax which has for over seven decades, been merely a matter for academic discussions and not been seriously countenanced even by the progressive popular governments, will be a contribution of the war to the financial and social development of India. These speculations apart, among the well-informed students of Indian public finance, academic and non-academic, there is a general agreement of opinion that the introduction of the inheritance tax is pre-eminently desirable and even urgently necessary both from the financial and social standpoints. Its financial desirability and necessity lie in the fact that funds are badly needed for the development of the country and it, together with income tax, can become a partial counter-weight to the other taxes which throw disproportionately heavy tax burden on the poorer sections of the community. The social desirability and necessity of the tax, of course, arises from the distribution of wealth and income being even more inequitable than in most other countries and the real need for the reduction of these inequalities pending the adoption of other and more direct measures for better distribution of wealth. In India the income-tax returns give some idea of the maldistribution of wealth, but in themselves they give, owing to the exemption enjoyed by the agricultural incomes only a very partial view of the extremes of wealth and poverty existing in this country and, of course, cannot indicate the extent to which the bulk of our people are poverty-stricken. But as there can be no two opinions about the co-existence of these extremes and their being extremely undesirable from the point of view of soundness of the social system, the necessity of imposing the inheritance tax has to be conceded as an urgently needed measure of social justice.

It is not necessary to state at further length the case for the imposition of the inheritance tax in India. The fact, that the tax is now being imposed by all countries, democratic, totalitarian and semi-totalitarian, and the change in the basis of the political systems, which has taken place in so many countries, has not led to its repeal or reduction, is a positive proof of its having secured an assured place in the tax-systems of the world. The fact is, moreover, a clear evidence of the tax having been accepted by the fiscal conscience of the world as a necessary and just tax and even the re-actionary elements, which have acquired the mastery of political forces in a number of countries have not been able to use it for abolishing or reducing a tax which was, a few decades ago, and probably still is, regarded by them as a discriminatory and socialistic measure. Even the backward states of South America and

South Eastern Europe are levying a progressive inheritance tax and the changes that have taken place in them in the last few years, through reactionary otherwise, have had the effect of making the inheritance tax a more steeply graduated tax. Germany under Hitler has put the clock back in almost every respect but even there the graduation of the tax has been further steepened and a complicated scale varying from 2 to 60 p. c. and levied on 5 classes and 22 categories of successions is being administered and is fairly productive. China, whose tax-system was probably the most backward tax-system of the world, also enacted an inheritance-tax law in 1936, which unfortunately could not be enforced on account of the chaos caused by the Japanese invasion. The democratic countries like the U. S. A., United Kingdom and France, of course, continue to levy the tax and rely upon it for a considerable proportion of their tax-revenue.

These facts show that India has to realise that the position which she occupies, owing to not having levied the inheritance tax as yet, is one which stands self-condemned in the light of modern fiscal theory and practice; and in view of the reasons given in a preceding paragraph it is absolutely essential for her to levy that tax and develop it as rapidly as possible. The war will probably, as pointed out above, make its imposition inevitable; but even if it does not, the necessity of imposing it has to be appreciated as a measure for which there is justification in the facts of our financial and social systems.

The only objection to its imposition, which has been urged all these years and which has some semblance of validity, is that leaving aside Bengal and a part of Bihar, the Hindus in the rest of India are governed by a Law of Inheritance under which there is no bequest or succession but only acquisition by survivorship, and therefore, imposition of this tax is in their case will give rise to numerous difficulties, which it will not be easy to surmount. The Mitakshara Law of Inheritance is very complicated, and one has to have a more intimate acquaintance with and mastery of its various provisions, than the present writer can lay claim to., before its bearing on the proposal for levying the inheritance tax in India can be clearly explained. But it appears to me that this law is more an excuse for the non-imposition of the tax than a reason for that course; and if the underlying purpose of the inheritance tax is properly and fully understood, it should not be beyond the wit or ingenuity of our lawyers to frame a measure by which that purpose can be realised without doing any violence to the spirit or working of this or any other law of inheritance.

The purpose of the tax is to tax wealth which is passed on from one generation to another and is the most important cause of the inequalities of wealth and income in India as in all other countries. When the wealth serves the purpose of affording economic security to minor children, widows and dependents without any other sources of livelihood, its bequest or inheritance is justified. The security is confined at present to a very small section of the people. In a well-ordered rational community, it should and would be made a charge on the resources of the community as a whole, and thereby inheritance for this purpose would become superfluous and unnecessary. But as things are, most survivors in need of assistance are left resourceless after the death of their breadwinners and receive as charity and, in most cases, under humiliating conditions, what should be theirs as a matter of right. When this obvious injustice of the existing arrangements is generally recognised, inheritance as a method of making provision for the family will be recognised as a very unsatisfactory method and replaced by social insurance for all whereby the deficiencies of individual resources would be made up by the community in order that children and dependents incapable of earning their living should not suffer physically and mentally owing to the loss by death of the breadwinner of the family. This view would, however, be treated as utopian and has no practical value. It has been stated here in order to stress the fact that the only purpose for which inheritance can be justified is where it is necessary to make provision for the family, and the inheritance tax should not trench upon it or increase the hardship of the survivors. In the existing circumstances only a small minority can be insured against being left in a helpless position by this method; but until economic security is made available for all by social insurance, this minority should not be deprived of the protection which the existing customs and laws give them and continue to enjoy what is really a favoured position.

The social purpose implicit in the Mitakshara Law of Inheritance, and for the matter of that in the Muhammadan or other similar laws of inheritance under which the shares of estate of the various survivors are prescribed in varying degrees of detail, is to ensure that no one who has a right to protection shall suffer unmerited hardship on account of the death of the senior member of the family. This is the spirit of these laws and this spirit can and should be kept in view in framing the inheritance-tax laws; but otherwise the tax-laws need not follow the provisions of the inheritance laws and their knowledge should be used to see that the inheritance laws in their operation do not defeat the purpose of the tax-laws. Taxation

of inheritance, being a method by which the State derives revenue for its treasury by mitigating the evil effects of the institution of inheritance, should be governed by its own inherent purpose and rate of taxation should be graduated according as the amount inherited is in excess of the minimum which is exempted from taxation, need of the inheritor and his right to the legacy.

If the above view is correct, it should be applied to all communities irrespective of their special laws of inheritance and any discrimination in favour or against a particular community should not be permitted. Limitation of space makes it impossible for me to elaborate this point or indicate how this inheritance-tax could be graduated according to the various classes or categories of inheritors. But I may illustrate it by pointing out how unfair the inheritance tax in practice would be if it is based upon the recommendation of the Taxation Inquiry Committee of 1926. The Committee recommended the inheritance tax in India should be levied in the form of an estate duty and in the case of the Hindu joint family governed by the Mitakshara Law of Inheritance, the tax should be assessed on that portion of the estate which the deceased would receive if the estate were partitioned just before his death. Estate duty, being a tax on the estate as a whole without any regard for the number or relative status of the legates or successors, is an impersonal tax and makes no allowance for their need and circumstances and, therefore, of their paying capacity. But apart from that point, which is important, a tax assessed according to the above method would discriminate in favour of the Hindu joint families governed by the Mitakshara law and would, therefore, be very unfair to the other Hindus and members of the other communities.

A simple illustration will show how discrimination will arise. A, a member of the Hindu joint family governed by the Mitakshara law of inheritance, dies leaving four sons and, assuming that whole of his estate is inherited and its value is rupees one lac, the estate assessed to the inheritance tax, according to the Taxation Inquiry Committee plan, will be one-fifth of the estate because that would have been A's share if it had been partitioned just before his death, his four sons not being his successors but co-parceners. But if B—also a Hindu but governed by the Dayabhag Law of Inheritance, under which complete freedom of bequest is recognized and which does not permit partition of the estate before the death of the father—dies, has four surviving sons and the value of his estate is also rupees one lac, the whole of his estate will be assessed to the in-

heritance tax and the assessment will be more than five times that of the amount to which A's estate will be assessed because rate of the tax will be graduated and very much higher in the case of estate valued at rupees one lac than the other estate whose assessable value will be only rupees twenty thousand. For all practical purposes A and B are exactly in the same position. So far as the value of their estate and the paying capacity of the four sons are concerned; but owing to their being under different laws of inheritance, B's successors will have to pay many times more than A's for the simple reason that under their law of inheritance, they are not entitled to claim partition of their family estate during the lifetime of their father.

In law, it is true, the sons of A become shareholders in their family estate by birth and they cannot be taken to have received at the death of their father the property which was theirs from the moment of their birth. If they receive anything at all by their father's death, it is the share of the family property which he could have withheld from them if the property had been partitioned in his lifetime, and therefore if they are to pay the inheritance tax, it must be on the value of A's share and not on the entire estate. Legally speaking this is the correct position, but it is also clear that if the legalistic interpretation of the position is made the basis of fiscal liability of the successors of A and B, it would result in gross injustice to the latter; and what is true of the Hindus, who possess and can exercise the right of bequest, must also be true of Muhammadans, Christians, Parsis or Anglo-Indians, who all, subject to some reservation in the case of Muhammadans, exercise unlimited right over their property while they are alive.

The only way out of anomalies of letting the special law of inheritance determine the rate or amount of assessment of the inheritance tax is, as stated above, to use the provisions of the laws of inheritance for realizing the purpose of the inheritance tax and not to give them undue weight in framing the provisions of the tax. In other words, we have to view the whole question of the inheritance tax from the social and not the legalistic standpoint. So far as the practical effects of these laws of inheritance go, they are all about the same. Parents may have the right to cut their children to the last penny, but they seldom exercise that right. As a rule, children inherit the property, both inherited and self-acquired, and it is shared equally among them, daughters, of course, getting nothing or much smaller share owing to the patriarchal character of our society. Similarly, children or rather sons may have the right

to claim the partition of family property even in the lifetime of their father, but the right is very rarely exercised in actual practice and they come into possession of their property and the right of free enjoyment after the death of their father. The Hindu joint family, as a social institution, is fast losing its hold over our life ; but whether it survives or not, the social effects, with which we are concerned in connection with the question of the imposition of the inheritance tax, are no different from those which arise from the working of the law of inheritance which are not influenced by this institution. All these laws are equally responsible for the existence and perpetuation of economic inequalities, the reduction of which must be the primary object of the inheritance tax. If the law is to be servant not the master of man, we must not let the special laws of inheritance obstruct the course of the development of taxation or produce results which are not justified from the fiscal or social standpoints.

The right course, therefore, is to define the objects of levying the inheritance tax. That need not present any difficulty for the theory and practice of the tax have been developed on the same lines all over the world which have commended themselves to the social conscience of men everywhere and will, if rightly understood and explained, commend themselves also to our people. The inheritance must be a fiscal and social measure. It must levy burden according to the paying capacity of the inheritor, that is it must be a personal tax and graduated not according to the total value of the estate but the paying capacity of the inheritor which not only depends upon the amount received by him but the wealth and income which he possesses or receives. It must also be graduated according to the nearness or distance of the relation of the inheritor to the deceased—the rate being varied directly to the distance of his relation. In India, it is true, each law of inheritance has its own order of precedence, and in the case of women their legal position is at variance with their position in the scale of human relations. This legal wrong should be righted without any further delay, but even if it cannot be, wife, daughter or mother receiving legacy or even life interest in estate should be treated with greater consideration under the operation of the fiscal law that they are under certain laws of inheritance and receive preferential treatment compared with the distant relations or strangers.

That would make it necessary to draw up a scale of relations based upon what may be called the range of natural affection or sympathy for the purposes of the inheritance tax. The

tax law should not change the order of precedence of the inheritance laws, it would only provide for a scale of graduation in accordance with the natural order. An order of precedence based upon the ordinary human relations would in most cases correspond with the wishes and affinities of the people and in practice would not involve serious conflict with the inheritance laws. An order which gives precedence to husband, wife, father, mother, son or daughter would generally be accepted by the people as right; but since that order will only determine the scale of graduation and not the order of inheritance, it should not raise any difficult issues or offend the susceptibilities of those for whom ancient customs or laws are divinely ordained. In a vast majority of cases, in most countries three-fourths of the estates are inherited by direct heirs and in their case there will be no divergence between the tax and inheritance laws; but in the cases, in which the divergence will arise, it will, as stated above, not affect the order of inheritance but only the scale of graduation.

The inheritance tax in India, should, therefore, have its provision determined by its own animating purpose and the inheritance laws should come into the picture to ensure those that are not used for legal evasions of the tax. It should, for example, be provided that Mitakshara Hindu families should not use their right to partition property to evade payment of the tax. The right to partition should remain, but all partition should be registered and the whole estate, including its separated portions, should be assessed to the inheritance on the death of the father, each branch of the family being treated as independent unit for assessment purpose. That means that self-acquired property and share in the family property of a particular branch should be lumped together and taxed according to the prescribed scale of graduation. If A, for example, has self-acquired property worth Rs. 50,000 and the value of his share, including that of his sons, in the family property is of the same value, his total estate should be assessed to the inheritance tax according to its distribution among his successors.

If this view is accepted and acted upon the Indian inheritance tax will be levied as a legacy duty and graduated according to (*a*) the amount of inheritance, (*b*) means of the inheritor, *i. e.*, according to the amount of property possessed by an heir and his needs—minor children receiving differential treatment according to their age, and (*c*) relation of the heir according to the order of precedence laid down in the inheritance-tax law. In order to give effect to this object probably a complicated piece of legislation will be necessary and provisions of the existing laws of

inheritance will have to be carefully studied to safeguard against evasions. But if once there is an agreement on the desirability of imposing the inheritance tax on the line indicated above and will to make it effective, it should be possible to enact a measure which in its conception and execution will, to use the well known words of Gladstone, be a powerful fiscal and social engine.

There are many other points which will require careful consideration, but I do not propose to deal with all of them. I shall briefly refer to three more which appear to me worthy of mention here. The first is the scale of graduation. The Taxation Inquiry Committee recommended imposition of an estate duty according to a scale varying from ½ p. c. to 6 p. c. on different slices of estate, the highest rate being applicable to property of Rs. 20 lacs or more. An impersonal estate duty is a far less satisfactory method of taxing inheritance than a personal legacy duty; but even for a legacy duty the scale of graduation recommended by the Taxation Enquiry Committee is utterly inadequate. In the beginning we will have to be a little cautious and fix lower scales than would be practicable later; but we are living in a period of swift changes and the war will make it necessary to go ahead. Inheritance tax will, as a matter of fact, have to be imposed as a war-measure in order that the funds may be made available for the development of vital services.

Rates of the Inheritance tax operative in different countries vary according to local conditions, but in most cases they are very much higher than those recommended by the Taxation Enquiry Committee. The British pre-war scale provided for taxation @ 1 to 50 p. c. and it has, since the outbreak of the war, been raised. The German pre-war rates were, as stated before, 1 to 60 p. c. and has most likely been further increased. In the U. S. A. the rates rise from 1 to 70 p. c. and in Norway from 1 to 60 p. c. In the less advanced States like Portugal the inheritance-tax rates vary from 2 to 35 p. c., in Chili from 1 to 40 p. c., in Venezuela from ¼ to 15 p. c., in Sweden from 1 to 35 p. c. and Irish Free State 1 to 32 p. c. In India we can fix the rates of 1 to 25 p. c. in the case of direct heirs and raise them to 33 p. c. for distant relatives and non-relatives at the outset, and within five years make them as high as they are in Great Britain, Germany and U. S. A. In India the case for a steeply-graduated tax on inheritance is, as stated already, even stronger than in most other countries and it is necessary to adopt a bold policy in the imposition of the inheritance tax.

The second point is that for efficient assessment, collection and administration of the inheritance tax, central legislation

and administration of the tax are essential. Under the Government of India Act of 1935 duties in respect of succession to property other than agricultural land have to be levied and collected by the Federation but its net proceeds in any financial year have to be assigned to the Provinces and States (vide Section 137). Duties in respect of succession to agricultural land are, on the other hand, included in the provincial legislation list (vide Seventh Schedule List II, item 43). I have not been able to find in the related constitutional documents any reason for the division which did not exist under the Dyarchy Constitution. In the latter the Provincial Governments were empowered under the Scheduled Taxes Rules to impose a tax on succession or on acquisition by survivorship in a Joint Family, a right which they failed to make use of. Centralization of the assessment and collection of the inheritance tax is desirable, but there is no reason why the duty on succession to property other than agricultural land should be centralized and that on succession to agricultural land provincialized.

In respect to the inheritance tax there is what the Joint Select Committee called the blurring of responsibility, and it is not clear that even when the tax is imposed whether the Provincial Governments will have any say in the matter. This is a matter with regard to which there should be consultation between the Provinces and Centre and provisions of the tax framed with their consent and co-operation. The fact, that the Government of India in 1937 dropped the proposal for the imposition of this tax after having deputed a special officer for investigating the question of its introduction owing to the lack of unanimity and enthusiasm among the Provincial Governments for it, shows that they hold the view that not only the net receipts of the inheritance tax should be assigned to the Provinces but also that it should be imposed with their full co-operation and approval. From the constitutional standpoint this is the right view but it will give rise to complications of a serious character.

In principle it is desirable that there should be one inheritance tax in India on all property, movable and immovable and it should be graduated with reference to its total value and means, needs and relative status of the heirs. But its integrity can neither be attained nor maintained if each Province is going to have its own inheritance tax on agricultural land and the tax on property other than land is to be imposed by the Centre and administered by it. Efficient administration of the tax requires that it should be an all-India tax and there should be uniformity in the principles and methods of its assessment and collection. But it cannot be imposed on an all-India basis unless all the

Provinces agree to its imposition and also to its scale and graduation and are willing to let the Centre include agricultural land also in the value of property assessed to the inheritance tax.

The inheritance tax being a tax on property, its imposition will evoke determined opposition of the propertied interests which will be overcome or undermined only by the strength of the progressive forces within the Provinces; and as the different Provinces are and will remain amenable to the pressure of the progressive forces in varying degrees, it will be exceedingly difficult to secure unanimous support of all the Provinces for the imposition of a unified inheritance tax graduated with reference to generally agreed principles and considerations. That means that even if some Provinces can be brought to agree to the imposition of such a tax, their readiness will be of no avail as long as even one or two Provinces are recalcitrant owing to the strength of the propertied interests or inter-provincial jealousies.

If before the war broke out, the Congress High Command had been alive to the importance of imposing the inheritance tax and had used its power to direct the Congress Provinces to initiate and promote measures for its imposition, a large measure of support could have been secured for it. But now the whole scene has changed; and only six Provinces are autonomous on sufferance and in the rest even a more thoroughgoing bureaucratic regime is in operation, the prospects become incalculable and the position extremely uncertain; but if the bureaucratic governments feel compelled to tap new sources of revenue to finance schemes of development which they, in their own interest, probably would not like to keep held up, during the war period, proposal for the imposition of the inheritance tax might be revived and seriously pursued.

But if the scene can be changed again and the present tension be replaced by co-operation, it would be desirable to remove constitutional difficulties in the way of the introduction of an inheritance tax on all-India basis and entrust its administration to the central authorities. There should be, as pointed out above, an inheritance tax on property of every description and it should be graduated according to principles which should be capable of application and be applied to all communities in India based on the assumption that the rich in India are under-taxed and should contribute much more substantially to the public treasury.

Net receipts of the unified inheritance tax will have to be assigned to the Provinces, but their assignment will raise the

question of the basis of distribution among them. Under Section 137 of the Government of India Act, 1935 it has been provided that the principles of distribution of receipts of the duty 'in respect of succession on property other than agricultural land' have to be formulated by Act of the Federal Legislature. The same principle will presumably have to be adopted for formulating principles of distribution of the general inheritance tax if its introduction can become a matter of practical politics. But the more important point is what those principles should be and not how they should be formulated.

This is the third and the last point which has to be briefly considered; and the issue which it raises is the same as the one which is involved in the solution of the problem of double taxation. If the assessment and collection of the inheritance tax is centralised there will be no question of double taxation or conflict of jurisdictions. But the apportionment of its receipts among the Provinces and States, if any, will require that it should be made either on residence or situs basis. Property, wherever situated or whatever the residence of the deceased owner or his successors, will be taxed as a unit and assessed to the rate applicable to it; but it will have to be decided whether receipts of the tax should be assigned to the Province in which the taxpayer has his habitual residence or to the one in which the property is situated, if the residence of the taxpayer and the situs of the property are in different provinces. If capital investments in India were evenly distributed and all Provinces had more or less equal share in them, the easiest method of distribution of the net receipts of the inheritance tax would be to distribute them according to the domicile of the taxpayers. But as the resources of the Provinces like Bihar, C, P. and Assam, have been developed by capital and enterprise of people from outside these Provinces the residence basis of apportionment would not be fair to them and will be found unacceptable by them. Another basis of apportionment, which can be suggested, is that the amount realised from any particular assessment should be divided among the Provinces in the proportion in which the assessed property is made up of the movable and immovable property, the Province of residence receiving the share determined by the proportion of the movable property and that of situs by the proportion of the immovable property. This basis will also, however, be open to the criticism that it will favour the Provinces which have specialised in commercial and industrial investments.

The question is complicated and requires careful consi-

deration. Absolute justice to the Provinces cannot be expected if India is to be a unit for commercial and industrial investments, and a rough compromise on the basis of a method tentatively adopted will have to be accepted. But centralisation of administration of the inheritance tax is essential in the interest of fiscal efficiency and harmony and a workable compromise for the distribution of receipts will have to be evolved on an empirical basis.

These difficulties and more will have to be taken into account when the question of the imposition of the inheritance tax is taken up for serious consideration. But imposition, as pointed out already, is long overdue Its non-imposition till now is due to singular timidity and shortsightedness of our financial authorities. The war must change everything, including our tax system. Among the changes, which are absolutely necessary and desirable, early introduction and development of the inheritance tax must have a very important place.*

REFLECTIONS ON FUTURE ECONOMIC ORDER: INTERNATIONAL AND NATIONAL (I)

BY

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I. INTERNATIONAL

Order is the natural yearning of a world inchaos, order in every field conceivable and order on smaller national scale as well as on bigger international scale. But the main trouble in this matter comes from the fact that these two, *viz.*, national order and international order, are not one and the same thing; on the contrary, in most cases, they are conflicting and con-

*NOTE:—This article was written before the Government of India announced its intention of introducing a bill for enacting an Inheritance Tax on Property other than land, and the situation has been slightly changed. It appears that in spite of the adverse decision of the Federal Court, the Government intends to bring forward a bill for the enactment of an Inheritance Tax of a limited character. The proposal will be open to the criticism set forth in the text, but even in spite of its limitations, the measure would be a step in the right direction and would, I hope, receive the support of the progressive elements in the country.—G. C.

tradictory. Those who assume an international outlook—and their number is not meagre, since it is almost a fashion now-a-days to be an internationalist—have condemned this like anything. Thus the World Economic Survey (L. O. N.) 1931-32 wrote :

> "Reversion from a highly organised and inter-dependent society to the simpler forms of national self-sufficiency is a costly process, and it has become quite clear that the remedy for international maladjustments is not to be found in a flight to economic nationalism."

Or, as Professor Staley has come to the following conclusion in his 'World Economy in Transition' :

> "A policy that restrains modern man from using the knowledge he has acquired, that restrains him from using resources in ways that have become essential to his present modes of existence in some parts of the world, builds up pressures for an explosion. Economic Walls at national boundaries, far from preventing conflicts, themselves create a grimly materialistic basis for future wars. One of the first principles for those interested in economic progress and political peace must be: Lessen the economic significance of national boundaries."

The pre-1914 internationalism was a one-power internationalism and this can succeed only so long as there is one great power in international field, while the others are busy with their respective home economics. The first great war was a challenge to this state of affairs. Since that date theory and practice are moving on different lines and the short-lived internationalism that we have witnessed, or may witness in future, was, and is bound to be, a one-power or one-group show, till the equilibrium is disturbed once more by the challenging internationalism of a new power. The war aims of belligerent powers are purposely high and never short of world orders and freedoms. Whatever these war aims for future economic order may be, and however high they may be held up, there is not the least doubt that the real nature of things is nothing short of 'trusteeship'.

In this connection it is interesting to note the suggestions and recommendations put forward by big men and big bodies, during and after the first war, down to the present day, showing their striking similarity upto this time and also to note certain events in order to drive home the fact that the practical world was moving in a region quite different from one envisaged in these suggestions and recommendations. They are suffi-

ciently known no doubt, yet it is big men who at critical moments commit mistakes and find it difficult to break away from rigidities and conservations, with the result that history goes on repeating itself and the seeds of future conflict lie hidden in the very measures that are adopted to put an end to them. Hence the known things should be repeated, and repeated thousand times, in order to make it sufficiently clear that if practice does not ascend to reach theory, theory should descend to meet practice. The gap in all circumstances should be filled up: otherwise there will be ample scope for grave disappointments.

In 1918, President Woodrow Wilson enunciated the post-war aims of the allies in what are known as the "Fourteen Points," of which the third point was "the removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance." ["Compare with this Clause 7 of the Atlantic in which the U. K. and the U. S. A. agreed not to burden commerce between themselves but to promote mutually advantageous economic relationships between them and the betterment of worldwide economic relations. "To that end they shall include provision for agreed action by the U. S. A. and U. K. open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of productive employment and the exchange and consumption of goods, to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers." Further, "at any early convenient date conversions shall be begun between the two governments with a view to determining in the light of governing economic conditions the best means of attaining the abovestated objectives by their own agreed action and by seeking the agreed action of other likeminded Governments.] Then came that ill-fated international organisation of the Allied Powers, the League of Nations, which in 1919 in its Covenant, Art. 22 and 23 (*e*) recognised "equal opportunities for the trade and commerce of other members of the League," and "will make provision to secure and maintain equitable treatment for the Commerce of all members of the League." Since then all the recommendations of all international Conferences were put forward "in order to avoid the erection between peoples of barriers which are obstacles to peace and the progress of civilisation." And how far did the world make progress towards these recommendations? In

the words of the World Economic Conference of 1927, "Europe remains today with its tariffs higher and more complicated, less stable and more numerous than in 1913. Moreover, Europe has failed to restore its former system of commercial treaties, and the habit has developed of putting tariffs designed for purposes of negotiation into force before those negotiations take place. If, as has often happened, these tariffs have failed to result in agreement, the obstruction remains higher than before." This was not only true of Europe, but of the whole world, because the force of circumstances compelled each country to set its own house in order, even though the task definitely went against all international plans. Then came the depression in 1929 and the state of apparent equilibrium broke down and all the measures for economic nationalism received a tremendous stimulus. Every country was more concerned with the national economy rather than with international economy and all the measures that were adopted aimed at restoring national equilibrium, if necessary, even at the cost of international instability. The following figures from Commercial Policy in the Interwar Period (L. O. N.) show the effectiveness of economic nationalism—how as a result of measures adopted by each country to stimulate national economy, production increased in all countries, but international trade failed to respond to the rising production:

Years.	1929	1932	1933	1934	1935	1936	1937
Industrial Production :							
World	100	70	78	86	96	111	119
U. S. A.	100	53	63	68	79	94	103
U. K.	100	84	88	99	106	116	124
Sweden...	100	89	91	110	123	135	149
France	100	72	81	75	73	78	82
Netherlands	100	84	91	93	90	91	103
Trade in Raw Materials :							
Value in gold	100	36	35	35	36	40	51
Value in U. S. $	100	36	35	35	45	67	86
Value in £	100	50	51	57	60	66	85
Quantum of World Trade ...	100	75	76	78	82	86	97

Many persons who are interested in sound international relations frequently assume that a high level of economic prosperity in all countries can be ensured if economic nationalism is totally or largely removed. Thus the Report on World Trade issued by the British National Committee of the International Chamber of Commerce believes that "the most effective instrument for securing the economical distribution of production is a world market to which all have access without favour or discrimination ; and in which rules a world price, locally modified by transport charges and as little as possible by tariffs." For the regulation of the world market, the Report prescribes an Economic Code to be adopted by all nations which would be required to demolish the vast structure of administrative regulations of economic relations. So far so good ; but it is doubtful whether Britain would be ready to dissolve the Imperial Customs Union established by the Ottawa Conference or liquidate the Sterling Bloc, and whether the U.S.A. would be ready to abolish the extensive tariff she had adopted in the thirties and allow fullest economic freedom to her own 'spheres of influence' in America and elsewhere.

During and after the first war, people were living in a fool's paradise in so far as they thought that the years following the war will see a reappearance of pre-1914 conditions in which the world could easily step. But the realities were the other way round owing to the complete collapse of pre-1914 system. The present war in its turn has brought forth important changes, not only in debtor-creditor relation, but also in the development of industrialism in some of the backward regions, which would mean a further check on the free flow of trade, particularly a check on the exports of the old industrialised countries. Before the years of depression, the international trade moved through multilateral channels, England having an active balance with the tropics and the Far East, these in their turn with the U.S.A., the latter with British Dominions, the British Dominions with Europe and Europe with England. This multilateral system worked upto the onset of depression, with the exception of the years of currency disturbance from 1914 to 1924. With the onset of the depression however international trade took shelter in bilateral channels. The present war will introduce all the more violent changes and raise more complex problems to be tackled and solutions to be devised. In 1926 the Balfour Committee on Industry and Trade appointed by the British Government pointed out that the immediate effect of overseas industrialisation would be to restrict the export trade of Britain and other old industrial countries. The present war has seen the

development of industrialism in some of the backward regions like Australia. India has also developed her own industries to some extent at least, in spite of the lack of adequate facilities and pressure of political factors. It is without doubt that the countries with national governments will come forward to protect their child industrialism by all means and if we assume that the Government of India will also do the same—though it is not certain how far our assumption will prove valid,—then the prospect for foreign markets, so far as old industrialised countries are concerned, becomes narrow indeed. To take the case of Britain, since the first war, the British export trade has sadly diminished. It is of course true that the British Board of Trade was able to report from year to year a favourable trade balance, but that was due to a continued exportation of British capital overseas. This was a poor consolation "to be reassured that we are not on the verge of national bankruptcy when we read the figures of unemployment or visit the devastated areas of South Wales or Durham or the West of Scotland. A trade balance on the right side is of infinitely less importance than a volume of trade which suffices to keep out industries going and our people employed (Cole: 'The Next Ten Years of British Social and Economic Policy') Sir Robert Kindersley has shown in the pages of the Economic Journal how some of the British Foreign investments had to be sold for the first time during the years of depression. As a result of the present war, there has been a serious decline in the export trade of Britain. Since 1938 this has declined in value to less than half the pre-war figure—last year this representing only 2·8 per cent of the net national income compared with 10·2 p. c. in 1938. This is not the only cause of impoverishment of Britain as a result of the war. For, this has given rise to conditions which will cause exceptional strain on the resources of the country. Thus before the war, Britain paid for a very large proportion of her peacetime imports of raw-materials and foodstuffs out of revenues received from foreign investments. Now, she will be deprived of much of this revenue. Thus according to an estimate made by the National Planning Association, British income from investments, shipping and other 'services' will, after the war, be perhaps £ 160 m. a year if world prosperity is at a level similar to that of 1936-38, and perhaps £ 300 m., if a really high level of world prosperity is achieved. In 1936-38, this income averaged £ 344 m. a year. The National Planning Association therefore believes that these changes due to the war may, by themselves, make a gap of from £ 50 m. to £ 200 m. a year in British Balance of Payments. (Quoted in 'Industrialisation of Trade,' A. J. Brown). The repercussion of

the above changes are worldwide ; for, these changes in the distribution of foreign assets will affect adversely the balance of payments not only of Britain, but also of all the countries situated in her position, thereby not only throwing the multilateral mechanism of international trade to the winds but also making the period of adaptation extremely difficult. This is clear in view of the fact that "the United Kingdom and certain other European creditor countries did not, in general, obtain the funds due to them from services and on investments directly from the countries owing them, but along roundabont routes and by means of a complex system of trade balances." (The Transition from War to Peace Economy, L. O. N.)

The industrial development that has taken place during the present war in some of the backward countries is in strikking contrast with the industrial development during and after the first war. Upto the onset of the depression, all the countries were trying, as a result of wartime experience and consequent suffering, to expand or introduce the consumption-goods industries for the sake of attaining self-sufficiency. The present war has presented the problem in a different manner, *viz.*, the difficulty of obtaining machines and machine-tools from the leading industrial countries which are now engaged in war. This has given rise to the development of these industries in some of the backward regions. True, the rising industrialism of backward regions ought to give a great impetus to trade ; but so far as the old industrial countries are concerned, the problem will not be easy, partly because of the exhaustion of their investments in foreign lands, and partly because of the contraction of foreign markets which has taken place. Hence the need for adaptation for these more advanced areas to changed economic situation. "It will compel these latter areas (*i.e.*, advanced industrial areas) therefore to render their factors of production as mobile as possible so as to meet and absorb the constant series of small shocks that changes in international demand will cause." Cole's suggestion for 'structural readjustment' hints at the same problem. (Cole : 'The Means to Full Employment' may be referred to in this connection.) But this sort of suggestion is too premature to receive attention at present, since all the able economies will join the scramble for market that will ensue immediately after the war.

This being the case, the foreign markets for industrial goods are bound to contract, except, of course, for some years when the work of rehabilitation and reconstruction of devasted areas will demand the supply of goods from foreign countries. The devastated areas of the world are Europe, including Russia

and some parts of England, and China and some parts of the Far East. The possible suppliers will be the U. S. A. and to some extent England. But here a problem arises and the problem is rather complicated. So far as the purchasers are concerned, the main question is, whether they will have the sufficient supply of foreign currency so as to enable them to make their purchases in foreign countries. True, there is the U. N. R. R. A. and also true that the proposal for World Bank may come to materialise, and the Bank may be functioning. But if reparation is imposed on the defeated countries, as it has already been done in case of Finland, and is likely to be done in case of others, these countries will once more be debtors in international accounts, borrowing money from some international organisation and making reparation payments—since payment in kind cannot be envisaged in view of the scramble for market that will ensue—but at the same time having no or no adequate supply of foreign currency and thereby having no external purchasing power. Some, like the Eastern Economist of Delhi, may feel apprehension in this argument, because, in their opinion, it would adversely affect our sterling balances accumulated in England. But the issue is distinctly separate, because in case of sterling balances, there has been transfer of goods and services, whereas in case of reparations, it is imposed by sheer force of arms, for destructions caused, which is, it must be admitted, mutual. True, there has been much destruction and devastation in the countries of the victors; but the same is true of the vanquished countries as well. Hence the imposition of reparations is not only unjustifiable, but also will unnecessarily complicate matters, leading to a repetition of the Dawes Plans and Young Plans, Hoover Moratoriums and Standstill Agreements.

The next thing to be considered is, whether these markets in the devastated areas of the world will be available for long. For, many countries of Europe will be new—for, it is foolish to envisage the restoration of the same political boundaries as before the war, the whole problem being dependent on the convenience of the victors—and their main concern will be to secure at least the home market to industries that they will develop. This depends, again, to a considerable extent on the prospect of permanent peace. For, if mutual doubts and distrusts prevail about the maintenance of peace, international interdependence will be submerged and national self-sufficiency will once more loom large for the coming war, the rumbles of which are already in the air. If the history of early postwar armistice days repeats, then the quantitative restrictions together with currency chaos will come to prevail, there will be

great disequilibrium in national pricelevels, and the governments would be "afraid of jumping into the cold water of an extremely tumultuous world price ocean." In this connection, we should refer to the extremely complex problem arising out of a multiplicity of small and poor economic units in Central and Eastern Europe, heavily indebted to the western world including America, or to some international organisation set up by them. True, for sometime, at least, they may be under the 'guardianship' of some big power, but that is worse still. The best solution would be the abandonment of the policy of the Balance of Power and the organisation of a strong European Federation, providing fullest possible independence for units, but organised under some strong European power which is 'like minded' with the democracies. Otherwise, the economic, social and political instability of these small, fully independent, states will be a potent cause of instability and insecurity in postwar world. In this connection, I must emphasize that the unfortunate emphasis on the so-called doctrine of 'Self-Determination' after the first war, with the ulterior objective of weakening Germany, has created a problem for Europe, nay, for the whole world, for which, I have grave doubts whether our generation can find any solution at all. Europe is the problem number one for the world. Either solve the problem permanently by a strong central organisation, instead of having a policy of Balance of Power, and consequently, different political boundaries manufactured from time to time, and different economies, leading to cut-throat competitions and currency warfares, or wipe out Europe by some means or other from the map of the world in the interest of permanent peace and stability of the world and the long run interest of humanity.

Before the first great war, the word "Planning" was unknown not only in theoretical economic discussions, but also in the formulation of State policy. But today any economy, wartime or normal, is unthinkable without planning. For some time it was abhorred in some quarters because of its association with socialism. But facts are quite different today and an unplanned laissez faire economy under existing circumstances is as unthinkable as planned economy was before the first war. We have some experience of national planning and its working in the years following the depression. But the enthusiasm today has gone so far that some people cannot but plan—undoubtedly on paper—on international scale. They want to translate Laski's important line, *viz.*, unless we think internationally, we perish, into economic field. But there arises a question, Can there be an international planning in the absence of an inter-

national State? The answer in any case must be in the negative. Different countries are in different stages of economic development--some depending on agriculture, others on industry and commerce, some having experienced only the first dose of industrial development, while others passing through second, third or fourth stage, some being debtors in international accounts while others being creditors, so on and so forth. Under these circumstances, any effort at international plan is bound to fail. The years of depression which saw the emergence of state assistance and national plans, well thought or haphazard, are a great lesson in this matter. Thus France extended her quota system to industrial products. Italy adopted quotas with the proximate motive of retaliating against French measures against Italy's exports. Netherlands Government justified recourse to quotas on the ground that they were preferable to tariffs as emergency measure. In other countries, large quotas were imposed in order to allay the fears or overcome the resistance of certain interests when duty concessions were made to foreign countries in commercial treaties. The U. S. quotas on agricultural products contained in the reciprocal trade agreement with Canada were of this nature. The British quotas were introduced as part of two programmes, that of agricultural rehabilitation in U. K. and that of Imperial Preference. (Cf. Quantitative Trade Controls. L. O. N.) This is only one small aspect of the whole problem of national economics ; but this is sufficient to show how these problems of individual national economy frustrate any planning on international scale.

Can we not get rid of these aggressive national policies and realise the objective of planning on an international scale? The answer cannot be definite. But this much may be said that the difficulties involved are tremendous. If we are to take the lessons from early post-armistice experience after the first war, the governments must agree in advance upon "some orderly process of de-control and some financially and economically sane system of reviving the economic life of countries impoverished by the war." It has already been pointed out that we are living in a world in which planning has come to stay as a permanent feature of every national economy. It is true that in spite of inherent contradictions and clash of interests the Allied Governments have come to an agreement over the International Monetary Fund, the prime object of which is to promote international monetary cooperation through a permanent institution which provides machinery for consultation and collaboration on international monetary problems. But even then the machanism will prove too delicate to over-

come all the complex problems of transition and post-war period, in view of the varied economic development of different political boundaries. The very provision allowing exchange revision within limited space without previous permission, still further revision with the previous permission of the Fund and the provision for withdrawal from the fund at any time by giving notice, though democratic enough, will find it extremely difficult to check currency warfares. On the other hand, any rigid policy will nip in the bud the very possibility of the idea of the International Monetary Fund being materialised.

This is not the only condition for the removal of aggressive national policies. No less essential is the establishment of a mechanism for the removal of all antipathies and mistrusts and for the preservation of peace. Something has already been said on this matter. It is not proper to prophesy who will be the leaders in the next world conflict. But that America will be one may be guessed from the views expressed in big phrases like, "never allow stockpiles of strategic materials to decline to vanishing point," for this would be a "noble means of approaching balance in our foreign trade picture that holds great promise." This is nothing short of registering the trademark for the monopolistic business of the maintenance of world peace. It is extremely doubtful whether peace can in this way be established. In view of this, national policies will prove inevitable and the barge of international economy will dash against the hidden rock of antipathy and mistrust, instability and insecurity. If a revival and spread of aggressive national policies are to be avoided, economic policies must become part of general constructive policies agreed among governments for the prevention of economic depression and for the maintenance of full employment in every national economy, for which, however, the prospect seems to be extremely meagre.

Even if we assume that the above difficulties do not stand in the way of achieving the objective, our attention at once goes to the fact that at present there is no such body as can secure a co-ordination between different national economies. Will the International Monetary Fund be strong enough for the purpose? Surely not. Besides, it is beyond its objective also. Under these circumstances, the pursuit of unco-ordinated programmes by different national economies will surely involve a disruption of the whole delicate mechanism of economic relations. Since the possibilities of world economic planning by a central authority are extremely remote in the absence of a world state, and since national planning is inevitable and

not a question of a choice, there should be established, if the aggressiveness of national plans is to be removed to some extent, an international coordinating body, for coordinating the different national plans and removing their angularities and contradictions as far as practicable.

But another very dangerous element is making its appearance which not only makes it impossible to secure any international coordination but even creates trouble in the national plans of at least smaller and weaker countries. Those countries which will be the members of International Monetary Fund "undertake to collaborate with the Fund to promote exchange stability, to maintain orderly exchange agreements with other members and to avoid competitive exchange alterations." "The Agreement sets forth the general obligations of the Fund members to avoid restrictions on current payments, to avoid discriminatory currency practices and to agree to furnish to the Fund the information it may require............" From this it would appear that the success of the plan would lead to the abolition of all exchange controls, of which we have experienced so much in the last decade and a half. But we must not forget that another more serious and at the same time more effective weapon than exchange control is raising its head in the shape of outright state-monopoly of foreign trade. Here I cannot check the temptation of quoting extensively from a Report submitted to the L. O. N. by Jacob Viner on Trade Relations Between Free Market and Controlled Economics :

"Countries committed to comprehensive economic planning on a national scale, involving direct intervention in the processes of the market and state control of the allocation of at least a major part of the national supply of productive resources for production, must find some way of controlling foreign trade so that their plans shall not be subject to continuous disruption through unanticipated fluctuations in the prices and/or quantities of particular categories of imports and exports resulting from external factors beyond their control. Administratively the simplest methods, and also the most effective methods, of insulating the internal price structure and the production plans from external influence would be either wholly to suppress foreign trade or to set up a complete state monopoly of foreign trade transactions. But these methods are for most countries politically too revolutionary and recognised to be economically too costly to be attractive. Countries committed to comprehensive economic planning on a national basis therefore seek some method whereby, without resort either to drastic suppression of foreign trade or to the establishment of a state monopoly of

foreign trade, not only the internal price-level but also the internal structure of relative prices can be insulated from short-run external influences not subject to their control. A comprehensive system of exchange control can be so administered as substantially to accomplish this objective........... If a national economic planning on a comprehensive scale and involving direct regulation of internal trade persists, we may be sure that exchange control will persist, unless it gives way to outright state monopoly of foreign trade."

What I mean to emphasize here is that both the U. K. and the U. S. A. have solved their problem by the establishment of the U. K. C. C. and the U. S. C. C. respectively. The experience with exchange control, either of the mild British type or of the rigid German variety, since the depression, showed that it was equally effective for all countries, thereby causing disadvantage to those economics which were too much dependent on the free flow of international trade. If, through the International Monetary Fund, exchange control can be removed from the national economic programmes of its members, then, this, simultaneously with the operation of outright state control of trade, will restore the previous advantage to bigger economics. Although the Chairman of the U. K. C. C. emphasized that "the U. K. C. C. is only a wartime organisation and is a commercial corporation, not a government department," implying that it would be wound up with the termination of hostilities, it has now been made clear by the British Government that it would be needed for at least eighteen months after the war with Germany and perhaps longer. The United States Government, however, from a report published sometime back, was strengthening the position of the U. S. C. C., by extending its backing to it. "The Foreign Economic Administration took direct control of the U. S. C. C. From now on the U. S. C. C. will make virtually all purchases of commodities for the U. S. Government except rubber and petroleum. This exception is not of particular significance, especially with the growth of America's synthetic rubber industry. The Administration has struck off from the list of Lend-Lease articles machine tools, etc., which may help the industrial development of other countries at the expense of U. S. A. Already many other important articles have been struck off from the list and it is reported that U. S. exports will soon begin flowing to India and the Middle East at an increased rate and through the U. S. C. C., or private commercial channels, instead of through lease-lend........... The U. S. Export-Import Bank is making extensive plans to offer facilities now and after the war, to foreign countries desiring to buy American goods." Thus if there is state control of inter-

national trade, there will be no need for any exchange control on the part of these two countries. But so far as other countries are concerned, they must either have exchange control as a part of national planning, or must institute bodies like the U. K. C. C. and U. S. C. C. There is no use in complaining of "defeatism and proposed surrender of the still free world to totalitarianism, the moment it wins its bloody struggle for freedom for the common man to use his own aptitudes and energies." There is no use in blaming totalitarianism simply because it is totalitarianism ; we must compromise with realities.

And why this totalitarianism ? Undoubtedly for capturing markets that may be available. Every government today has adopted full employment as its goal, but every government knows that the cessation of war will be followed by unemployment if measures are not taken in time. True, there is the possibility of a boom in post-war period ; but that is likely to be shortlived. It is to be remembered that so long as the world is organised as it is today, that so long as there are so many currency areas and that so long as intra-national mobility of labour and capital exceeds their international mobility, so long each national government will have its own employment policy, particularly so owing to the pressure of the electorate. This can be fulfilled in either of the two ways—either by increasing the purchasing power of the people of the same country, or by capturing the foreign market. The first resembles the socialistic goal of "From each according to his capacity, to each according to his need", or at least the "Structural readjustment" of Capitalism which is still a far off cry. Hence there is no doubt that the latter policy will come to be adopted for securing full emplopment, whatever may be the cost for its realisation. Monetary or financial considerations this time will not be able to check it, as they did after the first war. No monetary or financial policy that would come into conflict with this aim is likely to be adopted. The goal is prosperous trade with a view to attain full employment and it may demand that monetary policy will have to be modified and adopted to this goal. For that purpose, economic considerations will prevail over financial ones and nations will be ready to go to any extent in depreciating the currency, unbalancing the budget, or anything else, rather than let the economy alone to take its own course, and see it suffering from the chronic disease of laissez faire, *viz.*, unemployment.

Both U. K. and U. S. Governments and Commercial Community are taking steps for an export drive in immediate post-war period. We have already noted the position of U. K. C. C. and U. S. C. C. From a report published in The Commerce

(September 30, 1944), it appears that responsible people in the U. K. have come to a decision to organise "association trading." According to them, during the war, British industry has been organised on a very compact basis and the elimination of marginal firms has been one of the characteristics of this policy. When the war is over, the U. K. must, according to them, export or perish." Under this arrangement, entire trades will be grouped together for organisational and exporting purposes. Individual units of a particular trade will not be allowed to enter into export transactions in the sense known to the world during all these centuries of international trade. Trade projection under this dispensation will be made with the assistance of a grand concert of effort, more or less on the lines of export trade organisations known during the inter-war period in Germany and Japan. This is not all and we must remember that Imperial Preference is not going to be abolished. If we are to believe Sir John Anderson—and there is no reason why we should not—then "after the war, we shall emerge with heavy overseas obligations but at the same time our credit throughout the world will stand very high........I have no doubt where our true interest would lie. We agreed to work for the elimination of all forms of discrimination in international commerce. The only qualification was concerned with Imperial Preference." If every big power comes out with this sort of qualification for securing international commerce, that would indeed be a new type of world order, not yet known in textbooks. But that it would also put to nothing the economic aspirations of subordinate units in the Empire, there is no doubt about it.

America is also planning her own international commerce. For she knows fully well that "if U. S. is to maintain full employment, then exports will probably have to run at some $ 7000 m. per annum which—though representing only about 4 p. c. of total U. S. productivity,—will be half as high again as in prewar boom." A joint announcement by the State Department and the Commerce Department goes to show that "Diplomatic and consular officials in liberated areas had been instructed by the State Department to send to the United States information concerning the immediate supply requirements of liberated areas and estimates of economic conditions." And the President of the American Chamber of Commerce has made a proposal to the Secretary of State to the effect that "American businessmen should be allowed as rapidly as possible to enter the liberated areas of Europe which are no longer combat zones." This is not all America has one eye on Europe and the other on the Far East. (cf. Ethel B. Dietrich, Far Eastern Trade of the United States.) She is not blind to

Britain's indebtedness which has originated as a result of the war and which will compel her creditors to enter into bilateral agreement with her, if they want to have the payments made, even though their interests may not be fully satisfied in this process. That is why what America is going to do is to advance loans to foreign governments on condition that "these loans should be used exclusively to pay for food and equipment grown or manufactured in the United States............China will wish to industrialise and increase her productivity. India will seek industrial equipment to speed industrialisation. American industry can find vast export markets for equipment and machinery needed for this rehabilitation and accelerated progress. We must develop complementation for tapping these markets, not only to help prosperity at home but also to ensure peace in the world." One thing should be noted here. While Britain has got her own natural creditors to whom payment must be made in any case, America will create creditors and in this way find out markets. But this does not solve the ultimate problem of repayment so far as America is concerned. For America must be prepared to receive payment from these created creditors in goods and services, for which she will have to pull down her tariff wall and enter into bilateral agreement in the long run. These are inherent contradictions between national policies and international schemes and in a conflict between the two, the latter must give way and make room for the former*.

MAKING SENSE OF LAND UTILIZATION FIGURES (I)

BY

R. GALLETTI

I

The process of making sense of facts and figures falls into the two parts of arrangement and interpretation. Arrangement in itself serves no purpose but is merely a preliminary of interpretation. Yet in order that interpretation may be easy and accurate it is important that the arrangement of the relevant facts and figures should be logically right, serving to make clear the relationships and to underline the changes with which the interpreter must concern himself. When both arrangement and interpretation are good it will be found that theory illuminates

*To be continued.

data and data illustrate theory, and that as theory and data are studied together the gaps in both become evident and the ways in which the gaps may be filled are at last suggested.

Every attempt to introduce logic into studies of land utilization must be particularly welcomed. Because a share of the earth' ssurface is an essential condition for the conduct of every human activity, all the forces affecting human economics, whether in the narrower sense of production, distribution and consumption of goods and services or in the wider sense of use of any kind of resources as means towards any chosen ends, come to a focus in the allocation of land between different uses. The data which are relevant in the study of land utilization are not narrowly limited and the forces which manifest themselves in the phenomena of which our facts and figures are a very abstract representation are not only exceedingly numerous but almost unimaginably complex in their interactions. It is scarcely surprising that almost every student of land utilization, whether he is interested in the subject theoretically and aims at the description and understanding of what is, or has practical ends in mind and aims at the control or planning of the use of land, makes a different selection of the material and arranges his data in a different way.

In what follows the writer will endeavour to show how in his own attempts to make more sense of the kind of facts and figures available to the student of land utilization from censuses, surveys, sample studies, estimates and the rest, and in his appraisal of the interpretations of such facts and figures made in various works on land utilization, he has been led to note possibilities of better collection and ordering of statistics, of methods of handling the facts and figures which might help the student in securing the presentation of a clearer view of the reality behind the abstractions, and of clearer and more precise formulations of economic principles as they operate in the agricultural use of land.

Land utilization studies fall into three main categories—descriptive, explanatory, and practical. In the first group fall all those studies which aim at no more than a presentation of how the land was allocated between different uses in a particular region at a particular time or during a particular period ; such studies will ordinarily include some survey of the natural, social and technical conditions with which the user of land must reckon, but will not attempt to trace cause and consequence. It is difficult to find any pure example of this group, but agricultural atlases and census monographs are of this type. Studies in which relationships between facts and groups of facts

are indicated and correlations worked out but explanations in terms of cause and effect are avoided should be regarded as belonging to this group rather than to the group of explanatory studies. Explanatory studies, to which group perhaps most studies belong, attempt to interpret the facts in terms of cause and effect or condition and consequence, to show how and why the situation described came into being. It is to studies of this kind that we must look for aid in understanding the operation of natural, economic and social forces on agriculture; and as we refine our canons of interpretation and sharpen our instruments of analysis we approach the scientific study of land use. With the approach to scientific standards the way is cleared for practical studies, a group which aims at foreseeing the future working of cause and effect or condition and consequence and at furnishing materials for the framers of policy, who wish to know what tendencies in land use are to be encouraged and what restrained and to devise methods for controlling tendencies. Since knowledge is inevitably not only an end and a satisfaction in itself, but also a means for augmenting our powers and shaping our destiny, these practical studies are the coping-stone without which our structure is not complete, and the principal justification of land utilization study in the eyes of the majority of men, to whom pure study is a luxury they cannot afford.

If we try to make sense of the facts and figures concerning agricultural use of land merely to the extent of ordering them into an adequate description of a particular country or region, we find ourselves under the necessity of finding a scheme of organization; and if our scheme is at all logical it is nearly certain that we shall immediately discover the scheme calls for an entirely new collection of facts and figures. The data on which the student of land utilization relies were not collected for his purposes; consequently they are sometimes more than he needs but usually less, and very rarely in the form which suits him. The kind of difficulty that arises may be shown by considering a hypothetical project to study land utilization in the regions bordering the Pacific Ocean. Obviously this cannot be treated in terms of totals or averages for all the territories surrounding the ocean. The first thing is to find geographic entities that can be regarded as homogeneous so that the same description, with reasonable allowances for local variations not great enough to require separate treatment, will hold for the whole of each entity. If we take political divisions as our entities we certainly find masses of data of various kinds ready to hand in a form suitable for our purpose of description. But it does not take much scrutiny to see that political divisions,

and even administrative sub-divisions, are never uniform in any of the aspects important for land utilization, except legal and administrative conditions. We have to break up the whole area to be studied into regions, the regions into districts, the districts into tracts, on the basis of differences which are really material in their influence on the pattern of land use.

We go back to theoretical considerations to decide what differences should count as material; and we find ourselves with a long list. A classification used by the writer allows for six main classes (Geographic, Climatic, Biological, Social, Technical, Agricultural) and over twenty sub-classes (Location, Topography, Soils; Temperature, Winds, Rainfall; Human stock, Fauna, Flora; Culture and Temperament, Political Institutions, National Development, International Relations, Trade and Finance; Transportation; Power, Machinery, Science; Agricultural Practices, Irrigation and Improvement, Land Tenure, Agricultural Labour). To take our criteria for distinguishing regions from any of these classes or sub-classes lays us open to the temptation to over-emphasize certain groups of facts in our description; to use criteria from all of them at the same time is impossible because of the number of permutations and combinations found in the phenomena. Even if this were not so, we should find on turning back to the available data that we do not have adequate and comparable material for describing our regions, districts, and tracts thoroughly even under one head or sub-head. In order to make our description more than superficial and spotty we have to undertake research and the collection of more data. And when we have the data we have to organize them for our own purposes and not for those of the census, the statesman, the meteorologist, or the merchant.

The writer has compiled a list of desiderata for the student of land utilization; it has been said of it that it would furnish work for a thousand researchers for a thousand years; and it is not to be denied that the ideal of a study exhaustively covering the facts relevant to land utilization even for pure description with no further object is an ideal, not a practical possibility. But a method can be suggested by which the regions, districts and tracts can be delimited with little fear that important facts will be over-emphasized or under-emphasized in the subsequent description.

The method depends on the reasonable presumption that if a region is marked by the growing of certain crops and by the farming of the land in certain ways the physical and social conditions conspire to produce this result, and if the agriculture of the region is not properly adjusted to the conditions there

will be stresses and strains which will become clear in the agricultural history of the region. All the influences bearing on the use of land come to focus either in the distribution of land between different crops or in the way the land is held and farmed, so that a cross-classification in terms of Type of Product Combination and Type of Farming Organization will enable us to distinguish regions which really are different for our purposes.

It is not to be supposed that it is easy to apply the method of classification. American type-of-farming studies have shown that it is possible both to lump together very different types-of-farming by ignoring distinctions which may be important and also to reach an astonishing degree of subdivision of areas at first sight fairly homogeneous by considering finer distinctions. The kind of distinction to be made must depend on the nature and scope of the study; in a study meant to give a general view of land use in the Pacific areas finer distinctions cannot be taken into account; on the other hand in a study intended to make clear the trends and needs of farm management in a single county the finest distinctions can and should be made.

There are many difficulties. Supposing we make our first broad distinction in terms of the predominant product of each region, and make a sub-division in terms of the principal secondary products. We have to choose a measure of predominance and apply it. One measure can be found in the proportion of total acreage devoted to a product, another in the proportion of the total physical volume of agricultural production, a third in the proportion of the total value of agricultural production. To measure the acreage devoted to each product is the least difficult, but the result is not always very significant. For instance, in regions where tobacco is a predominant crop, the acreage under tobacco may be comparatively small; or again, in regions devoted to dairy farming a greater acreage may be assigned to cereals than to grass. When grain crops are used for animal feed as well as human food it may be exceedingly difficult to determine how much of the acreage is for each use. To measure physical volume is difficult, because some products are measured by weight and some by bulk, and also misleading, because the economic importance of products has no necessary relation to either weight or bulk; a very small weight and volume of quinine or pepper may be more important than a very large weight and volume of wheat. To measure value would give a direct economic measure, but it is almost impossible to measure the value of agricultural production. Not all agri-

cultural production enters into trade. The part that does not enter into trade cannot be valued at the same prices as the part that does; if it came into the market, prices would certainly be very different; and to measure the usefulness as distinct from the money value of the products consumed by farmers themselves is impossible because subjective value is incapable of measurement. Other difficulties could be mentioned; and other conceivable measures—for instance the proportion of plant nutrients taken from the soil—are subject to at least as many objections.

It seems best to avoid attempts at greater precision than the study admits. But if we can secure the right kind of data for acreage, production, and sale of agricultural products, we can make an appraisal that is perhaps more than rough and ready. The question is, what data are of the right kind? In the first place, they must be reasonably trustworthy. If they are based on a census, we must be satisfied the census was carefully taken; if they are estimates, we must know that they are well-founded; if they are based on samples, we must be sure of the statistical methods employed. We should know the background, the kind of error which may exist, and the possibilities of correction. Secondly, they must be available for small territorial units. Totals and averages for whole states and large administrative subdivisions are not enough for our purpose; they conceal the differences between different parts which are what we have to find. Figures by townships or villages are for our purposes better than figures by counties or districts; figures by states are merely misleading. Thirdly, the figures should cover a long series of years; the figures of one particular year may be erratic, and land use is moreover a matter of constant adjustment to changing situations. We should distinguish regions according to their behaviour over a period of time and not according to their position at one particular moment. We have no reason to suppose that any particular cross-section is typical unless we are concerned with a period of extreme stability.

The data at present available to the student of land utilization are defective on all three counts, though some will pass muster on the first and a few on the second and third. Before we can make studies which approach scientific standards we require data on acreage, production and sale at least as good as those for acreage alone available in the villages of British India settled on the ryotwari system, where the statistical registers kept under the provisions of the Famine Code show year by year the acreage of each type of crop for each village

in figures based on a detailed inspection of fields accurately surveyed.

If we turn to the other head of our cross-classification—Type of Farming Organisation—we again have dfficulties in (1) choosing our categories (2) finding an objective measure to use filling our categories, and (3) finding the data on which to apply our measure. The distinctions commonly found in the literature of agricultural economics are those between ownership and tenancy between small-scale, medium-scale, and large-scale farming. These distinctions are useful for certain purposes and cannot be ignored in any descriptive study of land use; important social and political forces come to a focus in land tenure, and the relation between population, area, standard of living and other essential elements of our picture come to a focus in the division of land. But the writer prefers a distinction which enables us to take account of these considerations and at the same time to concentrate our attention on the application of technique to resources, in the description of which there is probably more illumination and better matter for explanatory studies to follow. If we distinguish types of farming organisation as (1) Primitive (2) Inhibited (3) Progressive (4) Business (5) Collective (6) State, we see a progression from absence, through limitation and adaptation, to a maximum of possible (not necessarily actual) exploitation of technique. And this suggests the kind of measure we need. Technique, the increase of the surplus over bare subsistence, and capital accumulation go hand in hand, each being both condition and consequence of the others. We cannot very easily find a direct measure of efficiency or invention, though we can count implements and machines. We would find it difficult to measure the physical surplus of production over need. But we could, if we could collect the data, measure the flow of capital in agriculture, as shown in the investment, the working expenses, and the savings of farmers. Data for land value and livestock, buildings and implements are not uncommonly to be had. The gap in our figures is unfortunately just where the figures would probably be most useful. For it is at least a plausible hypothesis, and one which would certainly repay statistical investigation, that technical progress in agriculture has less relation to fixed investment than to free capital (whether saved or borrowed) which the farmer can turn in any direction to adjust his farming to the situation as it changes, to experiment and launch into new lines of production, to make improvements in land and buildings, to buy machinery, fertiliser, and good seed, to increase the size of his holding to suit his system of farm management and fully utilize machinery and labour, to secure advantages in marketing,

to improve his own education and efficiency. A statistical measure of the amount of working capital for cultivation, improvement, and marketing, calculated both per acre and per farm operator, with refinements to show how much was derived from savings and how much from credit, might yield a very fair indication of the status of an agricultural system. But at present we can construct no such measure for want of material to work on; general observation and opinion, checked by such figures as can be found in reports on the working of banking and co-operative credit systems and on rural indebtedness, must take the place of comprehensive and precise description. In the opinion of the writer the study of land utilization will take a long stride forward as soon as governments and researchers collect and publish data on the flow of free capital in agriculture, and inductive and deductive studies elucidate the relationship between this flow and the process of agricultural adjustment.

II

To divide the territory to be studied into regions, districts and tracts which can be described comparatively easily because they are comparatively homogeneous is not a simple matter even if data of the right kind are available. The procedures which have been adopted in the studies known to the writer do not seem to him satisfactory for the study of land utilization as a resultant of social and economic as well as geographic conditions. He would suggest that there is a method more logical for this particular purpose than any which is based on climatic, topographic or geological differences. If, as has already been maintained, all the forces affecting land use come to a focus in the allocation of the land between different uses, then two other propositions may reasonably be put forward; first, that areas showing similar crop combinations in similar proportions must *prima facie* be similar in most relevant features; and secondly, that areas showing similar responses to similar changes in the social and economic system must *prima facie* be even more alike. If similarity is established upon these premises, and a study of the physical conditions shows similarity in climate, soil, and topography as well, the demarcation of region, district or tract may proceed without further ado. If there is a similar resultant with different physical conditions in different parts of the area, an explanatory rather than a descriptive study is required.

It is to be emphasized at this point that any demarcation or mapping which aims at establishing definite boundary lines is misleading and mistaken. Regions do not come to an abrupt end like political territories, except in very exceptional cases;

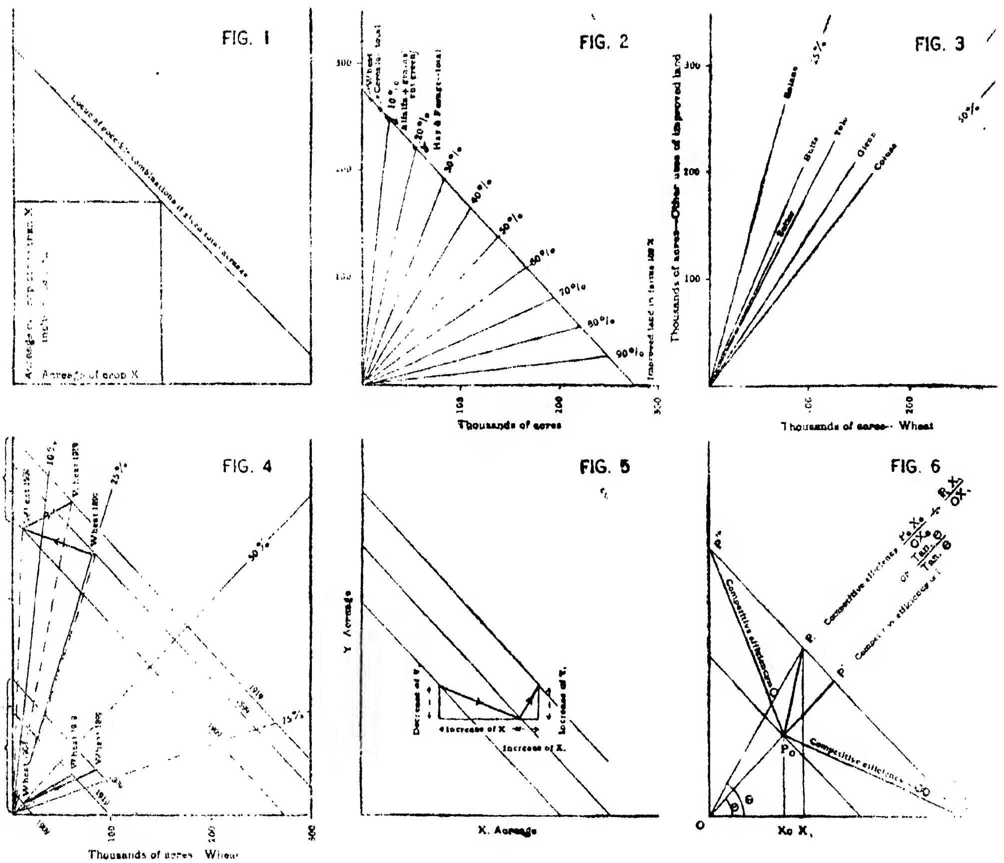
one system of agriculture or land use shades into another, and what we have to look for is what may be termed the "gradient of transition" between zones never mutually exclusive but always overlapping in greater or lesser degree. We shall have to notice in due course the concept of the margin of transference as it can be applied both in geography and in economics. Here we must make a note that the margin of transference is geographically not a boundary but an area, and economically not a fixed but a shifting zone of choice in which various choices are almost equally attractive.

On an ordinary contour map we can distinguish regions of hilly from regions of level topography according to the bunching of the lines and the levels represented by the lines. On a chart of a magnetic field of force we can distinguish regions of greater and less magnetic force in a similar way. For land utilization studies we need maps of like character, showing where the forces making for particular uses of land are strong and weak. With such maps it would be possible to locate the centres of regions of homogeneous character and to see where important transitions occur in the overlapping "fields" of one region and the next. And if such maps were studied side by side with climatic soil and population maps it is the writer's belief that descriptive studies of exceptional clarity and penetration would result and that the explanatory studies based on this material would be exceptionally cogent and exceptionally illuminating in attributing their relative parts and weights to physical, social and economic forces.

In what follows the writer presents certain embryo methods developed in a study of the Californian Great Valley and the decline of the use of land for wheat which he abandoned because the data—figures by counties at decennial censuses - were not enough; with data of the kind declared to be desirable earlier in this paper the methods might have forwarded both the descriptive and the explanatory study of the Great Valley.

The first step is to select in the light of the general knowledge of conditions in the area the crops important enough in its economy to require attention. Totals of acreage for each county are taken both for the principal groups of crops (Cereals, Hay, Fruit, etc,) and for the principal crops in each group (*e.g.*, Wheat, Oats, and Barley in the cereal group). The absolute figures are not comparable for counties of different sizes at any time or even for the same county at different times, since the area of improved land in farms varies and we

consider the relation of the acreage of a crop to improved land rather than to all land. The figures are therefore converted either to percentages of improved land, the figures for particular crops in each group being also shown as percentages of the total of the group: or, in order to use a graphic method which combines economy of effort with distinctness of presentation and adaptation to theoretical development, to proportions borne



by each crop to the remainder of all improved acreage and of the acreage of the group. The graphic method consists of plotting the position of each crop on a diagram of the kind shown in Fig. 1. The horizontal axis represents the acreage of the crop considered; the vertical axis represents the acreage

in all the other crops making up the total. For any given total the intersection of ordinate and abscissa must fall on a line cutting the axes at an angle of 45 degrees, which is the locus of all combinations making that total. This line can be marked as a percentage scale; or the radius vector to the point of intersection can be drawn in, so that the proportion of abscissa to ordinate can be seen from the slope of the line (since the proportion equals the tangent of the angle). On a diagram of this kind it is possible to show without undue crowding (1) the relative positions of numerous crops or groups of crops in one area at one time (2) the relative positions of the same crop or group of crops in numerous areas at one time (3) the relative positions of a few crops or group of crops in one area at different times. For instance, in Fig. 2 are shown the relative positions of various crops and groups of crops as proportions of the total improved acreage in Sacramento county in 1909. In Fig. 3 are shown the relative positions of wheat as a proportion of the total improved acreage in six counties in 1899. In Fig. 4 are shown the relative positions of cereals as a proportion of the total improved land and of wheat as a proportion of the cereal group in Sacramento county in 1899, 1909 and 1919. Various methods are used to show the possibilities of graphic presentation.

Diagrams of the type of Fig. 4 will interest us later in connection with the reformulation of land use theory. At present they interest us in connection with their use in the determination of regions. If in such a diagram we find that a particular crop's plotted points indicate a similar proportion of total improved area and group area for different counties at each time, we have evidence of similarity in competitive position at each time, and if the lines joining the points take the same general form, we have evidence of similarity of response to changing situations. In diagrammatic terms, similarity is shown by closeness of the radius vectors for each contemporaneous set of points. The line connecting points for the same area at different times is particularly interesting; by its slope and direction it shows not only whether the acreage of the particular crop was increasing or decreasing absolutely and whether it was increasing or decreasing proportionately, but also whether the changes in its acreage were accompanied by changes in the same or an opposite sense in the acreage of its competitors; and by its slope and length it indicates the proportion of the increases and decreases of acreage to each other and their absolute magnitude. (See Fig. 5). Charts of this kind are easy to prepare and to compare, and they save

a great deal of calculation when proportions need to be roughly known but need not be precisely measured.

When our material is ordered in this way, we can use the concepts of "competitive position" and "competitive efficiency" to give us measures of the relative importance of each crop at each time and of the degree of response of each crop acreage to changing situations. The proportion borne by all other crops or uses of land in the group considered to the particular crop (for convenience taken as unity) or the tangent of the angle of the radius vector O P in Fig. 6, states succinctly the acreage importance of the crop. (Similar measures can be devised for production importance, and will be used later.) If at the next point of time considered the proportion is the same the crop can be said to have maintained its competitive position; diagrammatically it will lie on the same radius vector, nearer to the origin if the acreage of the whole group has decreased, further away if the acreage of the whole group has increased. This maintenance of competitive position (indicated by the line connecting the points for successive positions lying along a radius vector) can be said to indicate a competitive efficiency of unity. If the crop were to oust all rivals it would have a competitive efficiency equal to and if it entirely disappeared it would have a competitive efficiency of O. The measure of competitive efficiency is obtained by dividing the ratio indicating the competitive position for one time by the ratio indicating the competitive position at the next point of time (or the tangent of the angle of the radius vector for the first position by the tangent of the angle of the radius vector for the second position.)

Similarity of competitive position by itself does not indicate homogeneity for two areas; the competitive efficiency may prove very different. Similarity of competitive efficiency by itself is equally unconvincing, since very different sets of ratios will give similar quotients. But if competitive positions at different times are similar and competitive efficiencies keep step through a series of changes, a marked degree of homo geneity can be presumed.

In the study of the Great Valley of California the fact that the figures available were only by counties and ten year intervals prevented effective use of these measures; but enough could be done to show that the next step would give good results with better figures, (*i.e.*, figures for smaller subdivisions and more frequent intervals). The measures of competitive position of a crop or group of crops for each country and each census are entered on a map, and "contour" lines are sketched

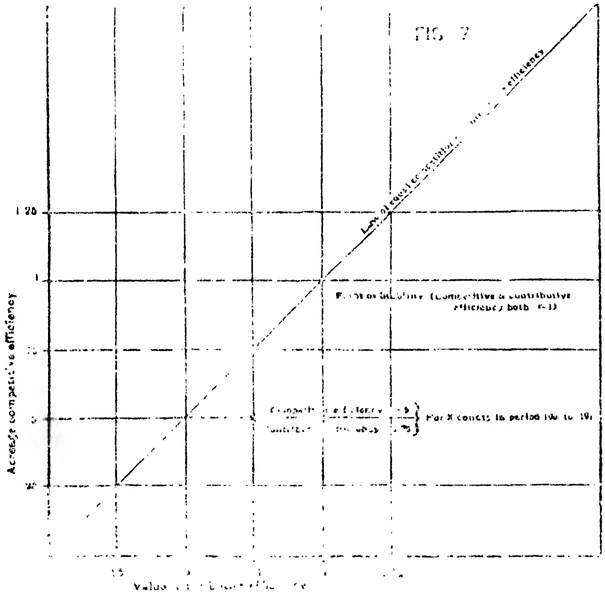
in to show the approximate "limits" of areas with particular competitive positions. These "contours" will be different for successive periods, so that (*e.g.*) the line indicating the limits of a competitive position of 7 in the first period may coincide with the line indicating a competitive position of 3 in the next; this change indicates the competitive efficiency of the crop. Where the "contour" lines diverge they indicate areas with a different competitive efficiency for the crop. So by studying the "gradients of transition" for each set of contour lines, and the "anomalies" between sets of contour lines we are enabled to demarcate different regions, districts and tracts, to locate the "centres" of regions, to find the zones in which the geographic "margin of transference" must lie, and to determine where economic "margins of transference" have provoked shifts between different uses of land.

It is to be expected that the maps based on different crops and different groups of crops will show significant differences. But if we start with the predominant crops of the whole region, the main lines of demarcation will be clear, and the maps based on the other crops will indicate subdivisions or corrections to be made in the first approximations rather than essential differences.

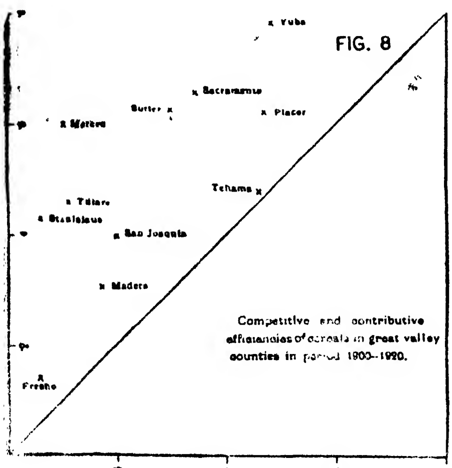
This method requires development and refinement; and it cannot be used without the exercise of judgment and reference to maps showing the principal climatic, soil and topographic features of the area studied. The results should be distrusted unless they show explicable relationships between land use and physical factors. The writer's crude study of the Great Valley satisfied this test, indicating that the land use definitely reflected both the influence of physical environment and the play of economic forces. With better data than he could find, and with larger and more accurate maps than he had, a study of this kind should assist materially in disentangling the influence of physical conditions and showing how much of the picture required explanation in economic and social terms. But that lies in the field of explanatory land utilization studies. For descriptive studies the method outlined will be justified if it facilitates demarcation of regions according to the real characteristics of their land use and description in terms of the really important facts and factors.

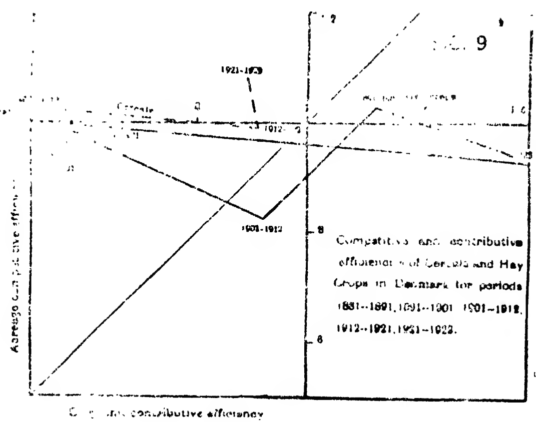
It was remarked earlier in this paper that the importance of agricultural products can be measured in terms of production and value as well as of acreage. The proportion that a crop holds in the acreage will not necessarily or normally correspond to the proportion it holds in the production of a

region, so that we can secure alternative measures to help us in demarcating our regions, correcting, refining, or replacing the demarcation made in the light of acreage figures. The method



of calculating what may be called "contributive position" and "contributive efficiency" (whether in terms of money value or crop-units or other workable measure) is similar to that describ-





ed for competitive position and efficiency. By choosing suitable scales we can plot changes in contributive position in juxta-position with changes in competitive position on the same

diagram, as in Fig. 7, 11a or 11b; we can show how competitive efficiency diverges from contributive efficiency either for the same crop in different areas or for different crops in the same areas for one or more periods, as in Figs. 8 and 9. To account for the divergences calls for explanatory studies; the divergences themselves give clues to the grouping of tracts in respect of relevant similarities. For instance, on the basis of the changes in the proportions held by cereals in acreage and total value as indicated by "competitive efficiency" and "contributive efficiency" measures, the writer distinguished three groups of counties in the northern Great Valley and three in the southern, the group comprising Sacramento, Placer, Sutter, Solano, and Yuba being "normal" for the northern section, and that comprising San Jeaquin, Stanislaus, Merced, Madera, and Tulare "normal" for the southern, while the groups comprising (1) Glenn and Colusa and (2) Yolo, Tehama, and Butte were "abnormal" in different ways in the northern section, and Fresno and Kings showed totally different "abnormalities" in the southern area.

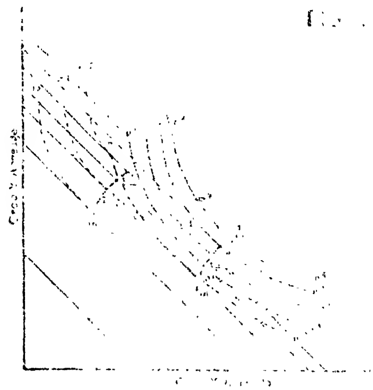
III

The writer believes that descriptive studies, though they may be welcome for themselves alone, are more interesting and more useful if they pave the way for studies which increase our understanding of "laws" or "uniformities of behaviour." To sort out the multiplicity of phenomena according to their juxtaposition in space and time helps us to handle our knowledge, but it does not make the knowledge worth while; to sort out the facts according to their relations of action and reaction or cause and effect helps us to find meaning in them. Making sense of the facts and figures concerning land use requires this kind of sorting. But to know exactly what sorting will best serve our purpose we must know exactly what kind of theory we need to guide us in our investigation of phenomena.

The formulation of theory now to be presented is adapted to mathematical exposition, and the writer hopes that mathematical economists may think it worth their while to generalise the formulation in terms of mathematical analysis. It is here presented as it might be applied in a hypothetical situation of extreme simplicity, and in terms of individual farm management rather than regional land use. The assumptions involved are: (1) We are considering a single farmer who grows only two crops; (2) All of both crops is sold, and all costs are reduced to money terms; (3) The functions of marginal yields, marginal revenue (which are assumed to diminish), marginal costs (as-

sumed to increase), and consequently marginal net return (assumed to diminish) are known for every possible acreage; (4) the amount of land cultivated can be increased or decreased within certain limits.

In Fig. 10 the horizontal axis represents the acreage in crop X and the vertical axis the acreage in crop Y. The locus of combinations of the two acreages adding up to a given total



acreage will be a straight line cutting the axes at an angle of 45° at a distance from the origin equal to the given total. There is one such line for every different total.

We now conceive of a set of indifference, or more properly 'equal return,' curves so constructed that through every point in our surface one curve, and only one, can be drawn. Each curve marks a particular total net return obtained from the two crops grown on different combinations of acreage; for any particular combination of acreage there will be only one possible net return in a given situation. Where one of these equal return curves (p—p, p′—p′, etc.) is tangent to a "total acreage" line lies the point (p_m) at which that particular total net return can be obtained with the fewest acres, and where that particular total acreage gives the highest net return possible in the given situation. It is possible to move from one such point to another by changing the total acreage and making appropriate changes in the combination of X and Y. When all the factors determining net return remain constant, only acreage being variable, the locus of the points p_m, p'_m, etc. marks the direction of the changes made in the acreage of each crop (if the farmer makes his adjustments correctly) the acreage being increased or diminished according to the possibilities afforded by nature, command of capital, command of labour, and other conditions of obtaining and working the needed acreage. If any of the factors determin-

ing net return varies, the altered situation is represented by the substitution of a new nest of curves of equal net return (*e.g.*, p—p, p′—p′, etc.) and the new locus of points of maximum net return (p_m, p'_m, etc.) indicates the new direction of change of the combination of crops. For each total acreage the new total net return may be higher or lower. If total acreage cannot be varied for any reason the new point of adjustment will lie somewhere else on the same total acreage line. If total acreage can be varied, the new point of adjustment will be where the higher p_m possible in the new situation is to be found. Both acreage and net return may be either smaller or greater according to the nature of the change in the factors affecting net return and the conditions governing changes in total acreage.

The point of adjustment marks the economic margin of transference; the last fraction of an acre in either crop is on the brink of shifting and yields an equal marginal net return in either use. At any other point on an equal return curve there will be an economic force urging substitution, and the elasticity of substitution will vary with the slope of the curve.

Variations in the acreage devoted to a crop and the position of the margin of transference must be studied with reference to two sets of factors :

(I) Factors affecting returns :

(*a*) Factors affecting gross returns—

Yield—(varying with climate, weather, soil, irrigation, technique, pests and other hazards, etc.)

Price: (market price less freight and handling charges, or, price on farm) varying with changes in market conditions, freight and middlemen's expenses.

(*b*) Factors affecting net returns.

Costs—(labour, seed, machinery and fertilizer expenses, rent, taxes if they vary with the crop and yield and not with the amount of land used, interest, etc.)

(II) Factors affecting command of land :

(*a*) Factors affecting availability of land—

Legal and institutional conditions.

Competition for land for other purposes (*e.g.*, industrial development).

Competition for land by farmers.

(The indications of these being

1. Law and custom relating to first occupation, transfer, lease, etc. of land.

2. Taxation of land.

3. Rents and land values.)

(*b*) Factors affecting working of land.

Legal and institutional conditions.

Supply and price of labour.

Supply and price of technical aids.

(The indications of these being

1. Law and custom relating to modes of husbandry.

2. Density of rural population and proportion employed in agriculture, or, if it can be ascertained, total potential man-hours supplied by permanent, part-time and transient labourers.

3. Wages.

4. Invention and scientific developments (*e.g.*, machinery, plant improvement).

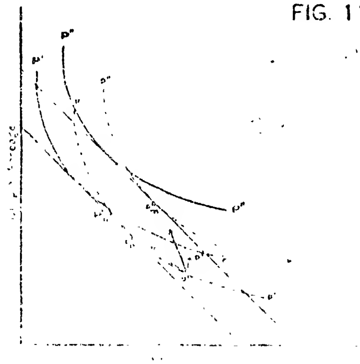
5. Savings and credit available for farmers (for land purchase, land improvement, production credit, etc.)

The list is not exhaustive. But if these (and any other factors which may be significant in the situation studied) remain unchanged, a shift in acreage indicates an attempt at adjustment from a less advantageous position towards p_m. The speed and degree of the movement will be related to the elasticity of substitution as indicated by the slope of the p—p' curve. A shift from one p_n point to another $p_{\bar{m}}$ point on the same set of curves will be due to a change in one of the second set of factors, and a p_n shift to a point in another set of curves will be due to a change in the first set of factors; the speed and degree of the movement will be related to the change in the factor and the consequent changes in the competitive efficiency of crops.

In Fig. 11 a movement from p'_1 to p'_m would indicate an adjustment to a given situation and would be adapted to the elasticity of substitution indicated by the curve p'-p'. A movement to p''_m would indicate a change in the second set of factors. A movement to p'_1 would indicate a change in the first set of factors, with adjustment to be made by a movement towards p'_m.

A theory formulated in these terms requires to be greatly expanded and refined before it is adapted to realistic study. On the mathematical side it requires to be expressed in terms of many-dimensional instead of two-dimensional analysis. On the economic side it needs to be adapted to systems of agriculture in which other returns than money profits are the motives for changes; a different "content" has to be given to the equal return curves for each different system of agriculture. The

FIG. 11



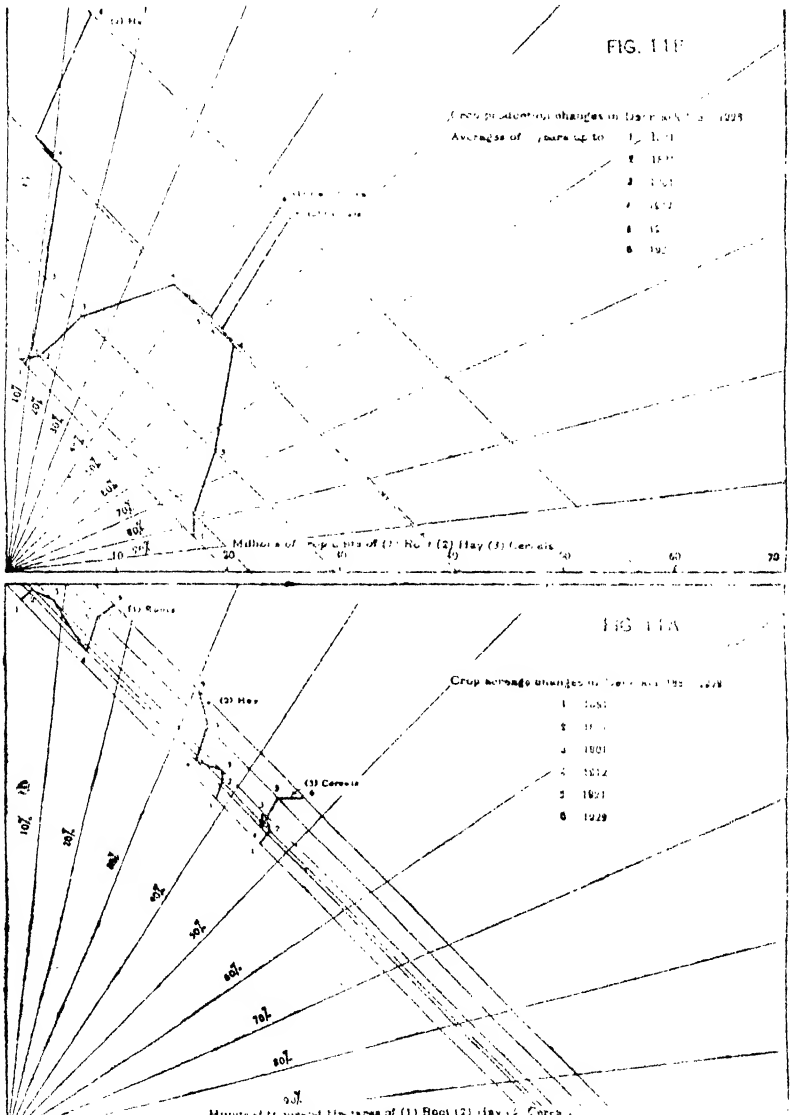
development does not, however, seem to present more difficulties than are usual in economic theory, while it seems to offer possibilities of bringing theory and statistics to bear on each other when the statistics are handled in the manner previously suggested. Points of "competitive position" are to be conceived as lying on "curves of equal return" and "competitive efficiency" as a resultant of the forces generating movements along and between "curves of equal return". Unfortunately the graphic method does not lend itself to multi-dimensional statistical analysis; as a working tool it is only two-dimensional, and for graphic presentation is at most three-dimensional. But if a statistical method can be devised to present "competitive positions" and "competitive efficiencies" of each use of land not in terms of one other use or other uses all lumped together but in terms of each separate use in its place in the system comprising all uses, then the theoretical margins of transference calculated from the known conditions of a given area and period can be compared with the actual margins of transference observed in the phenomena, and the agreement or divergence will indicate how far the theory is correct, or what kind of influence has been left out in the theoretical analysis which may be discovered by study of the facts.

In this connection the distinction between geographic and economic "margins of transference" is worth discussion. If we could find strictly homogeneous tracts to study econo-

mically, we could say that in them there is no geographic margin ; any and every piece of land would be on the economic margin, and the acreage shifted from one use into another might be taken from anywhere in the area. But since in fact no tract large enough to be worth studying—unless it is a really small farm—is ever uniform throughout its extent, some parts are more suitable for one use and some for another, so that the economic margins vary in even small areas. When we speak of whole areas as being "submarginal" we talk very loosely ; we must first define the margins in which we are interested, and we must then recognize that while most of a farm or district may in a given economic situation be below the margin for, *e.g.*, wheat-farming yet portions of the farm or district may be well above the margin. There is a margin separating every use from every other use. Economically it is determined by a host of conditions making one use worthy of choice in preference to any alternative ; geographically it is determined by the complex of physical conditions determining comparative advantage, which make the order of preference between different uses and consequently the order and intervals of the economic margins different for every tract with specific qualities.

The writer suggests that the kind of explanatory study of land use which would be really illuminating is one which from the observed facts of shifts of land from one use to another in different regions and over different periods would attempt to deduce the changing scales of preference between different uses and to explain them in terms of changing orders of comparative advantage following upon known and precisely appraised changes in each of the principal determinants of choice. It is fairly easy to relate changes in land use to changes in conditions in a general way, to see, for instance, that the shift from cereal to fruit farming in particular areas of the Great Valley was connected with such things as the increase of population and capital, the development of irrigation, the opening up of new wheat areas in other parts of the world which had a comparative advantage in wheat-farming. But a scientific study of land use calls for something like Newton's laws; we have to set up a hypothesis that every action has an equal and opposite reaction and see how and where these reactions occur. In a complex economic system it is to be expected that our "actions" will be a whole mixture of influences and our "reactions" will be dissipated in a multitude of phenomena. We cannot expect to establish by inductive studies the equality of action and reaction; but every step we can take towards distinguishing causes and connecting them with consequences will augment our understanding.

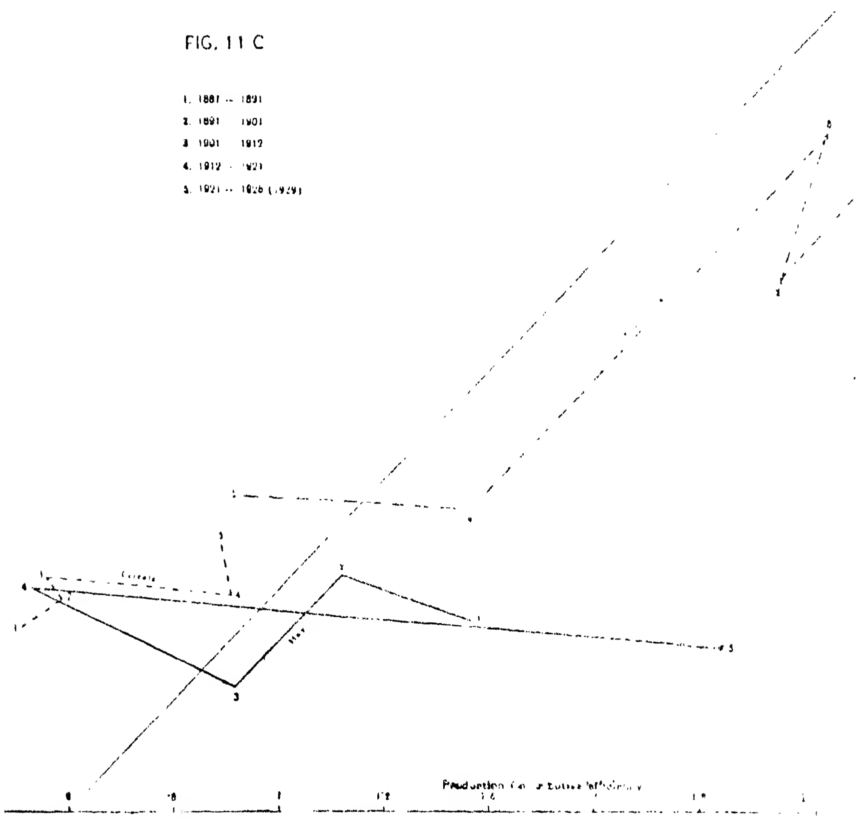
As an instance of the kind of study that may be developed the writer here presents a crude first approximation to the explanation of the allocation of crops between cereals, hay, and root crops in the Danish system of agriculture. The facts are from Dr. Einar Jensen's admirable study "Danish Agriculture." In that study the explanation of the Danish farmer's



choice is given in general terms, and the physical, technical and economic conditions are clearly portrayed. But Dr. Jensen has not attempted to show how far the Danish farmer has

succeeded in making an adjustment which economic theory would call perfect, in the sense that the marginal net return from the last fraction of land in each use are equal to each

FIG. 11 C



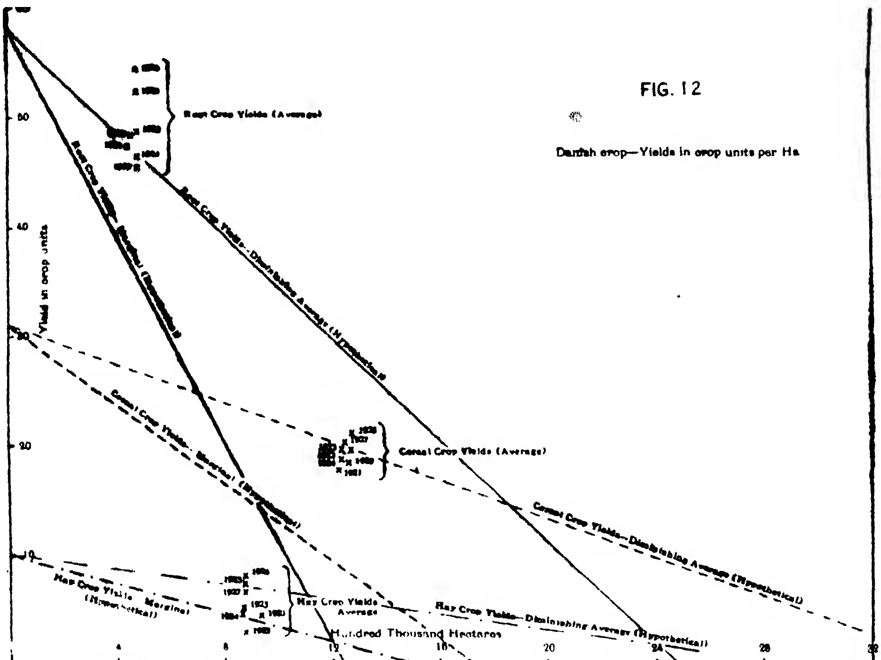
other and as nearly as possible approach the limit which would maximise the total net return.

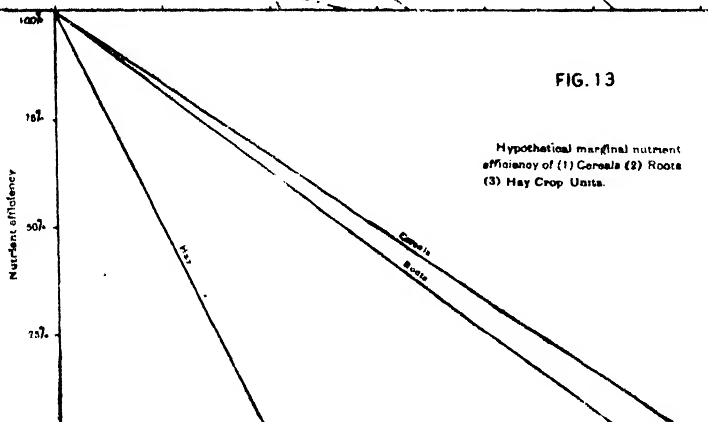
Dr. Jensen tells us that to all intents and purposes all crop production in Denmark is for feed, and gives the figures for production in crop units of feeding value equivalent to 100 kg of first-grade barley. We disregard the use of part of the cereal crop for human food in order to simplify our problem, recognizing, however, that the error is not really negligible.

Plotting the changes in proportion of the groups of crops and of the crop-units yielded by each group to the total acreage and production in charts of the type previously described. (Figs. 11a and 11b.) which can be compared with Figs. 43 and 47 in "Danish Agriculture," (p. 233 and p. 243), to illustrate the points in which this type of chart offers advantages). We find that proportions in acreage and proportions in production did not move in the same direction and degree, either in the whole period from 1881 to 1928 or in the post-war period. Cereals maintained or improved their proportion of the acreage while losing some of their proportion of the production; hay lost much of its proportion of the acreage but maintained and towards the end improved its proportion of the production; root crops in the pre-war years increased their proportion of the production more than their proportion of the acreage. Dr. Jensen gives some account of the differing developments of technique and different rates of increase of yield which made contributive efficiency diverge from competitive efficiency in the manner shown in Fig. 11c. But he has not in his theoretical discussion of the allocation of land between different crops (pp. 282 ff) attempted to show how the statistics and the theory agree. In what follows the writer attempts to arrange a marriage between theory and facts.

Taking the post-war period from 1921 to 1927 we plot the average yields as in Fig. 12. Not having any precise data on maximum and minimum yields or any other way to discover what average yields would be with different acreages in a particular group of crops, we deduce our curves of average yields and our curves of marginal yields with the help of crude but not fatal assumptions. We assume that the functions are linear, that the highest yields are in the neighbourhood of 58 crop units for roots, 31 crop units for cereals, and 10 crop units for hay, and that the system of farm-management and labour distribution is such that differential costs need not be considered, so that the gross yield curves can be taken instead of unknown and probably unknowable net physical return functions. A consideration of the marginal curves so derived shows that the allocation of the land is not designed to give an equal marginal physical yield for each use of the land; if it were

there would be far more land in root crops, rather more in cereals, and far less in hay. Allowing that questions of labour distribution and fertilizer needs may have some bearing, we nevertheless consider first a point indicated by Dr. Jensen, that the composition of the feeding ration is of prime impor-





tance. There is a limit to the amount of each kind of crop that can be fed to a given number of cattle. We therefore proceed in the manner indicated in Fig. 13, where crop-units are marked on the horizontal axis and feeding-efficiency on

the vertical axis. With further assumptions that the curve of marginal efficiency is linear and that the marginal efficiency declines from 100 per cent to zero for cereal feed in the neighbourhood of 30 million crop units, for roots in the neighbourhood of 27 million, and for hay in the neighbourhood of 10 million, the cattle population being what it was circa 1925, we proceed to derive curves of net returns in terms of feeding efficiency by multiplying the marginal yield for each given

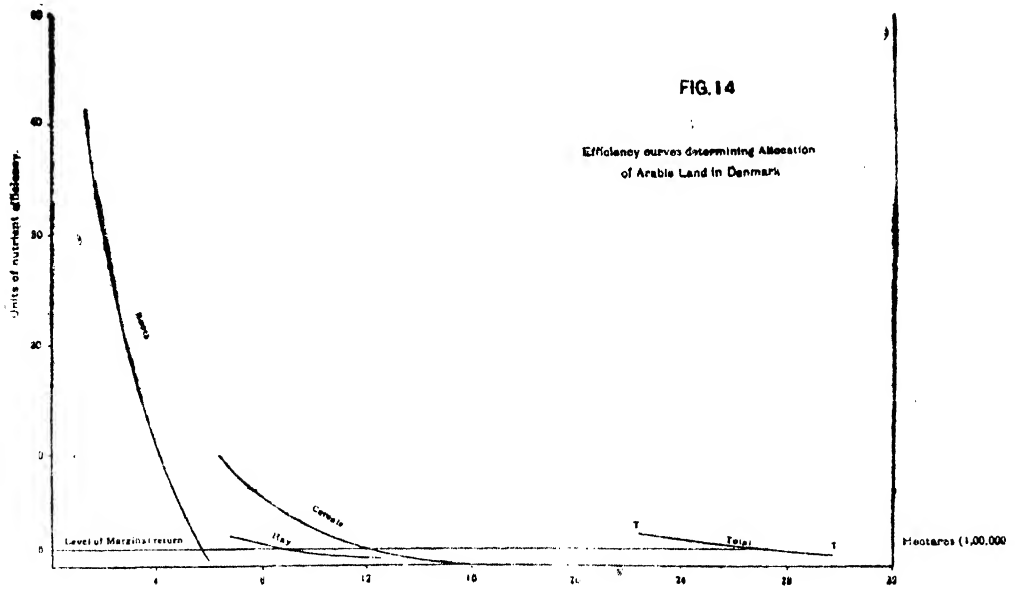


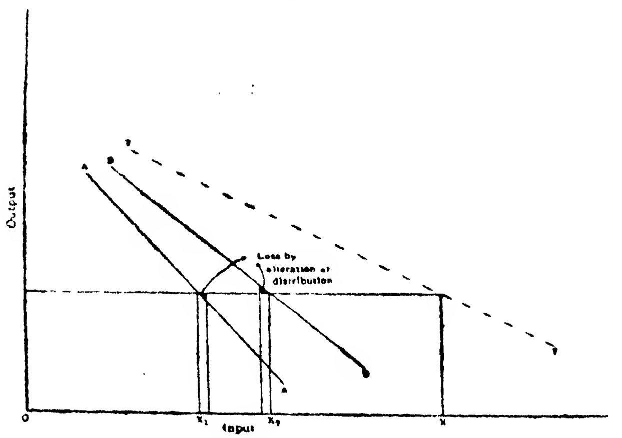
FIG. 14

Efficiency curves determining Allocation of Arable Land in Denmark

acreage by the marginal efficiency of the number of crop-units expected from that acreage. The general form of these curves is represented in Fig. 14. Summing the curves horizontally

we get the total efficiency (production) curve T-T'. It is demonstrable—it is in fact the simplest demonstration of the cardinal principle of substitution—that if a given input of any productive factor is to be distributed between different agents capable of using it with varying efficiency, but all with declining marginal efficiency, the distribution which will give the greatest total return is the one securing equal marginal efficiency from each agent, and that this distribution is the one

FIG. 15



which gives the same marginal efficiency on the curve of total marginal returns obtained by summing the particular curves of all the agents. In Fig. 15 it will be seen that if an input of OX is available, it should be distributed between the agents represented by the curves A-A' and B-B' so that a marginal efficiency equal to XP is obtained both from A-A' and from B-B' with OX 1 of input to A-A' and OX 2 to B-B', when the area under the curve T-T' will be a maximum. If a little more of the input were given to A-A' and a little less to B-B', the decrease in B-B''s output would be greater than the increase in A-A''s by the amount indicated by the areas shaded in the diagram, and *vice-versa*. The right economic distribution indicated by the curves in Fig. 14 agrees very closely with the distribution actually found in Denmark.*

Allowing for the crudity of our assumptions, the omission of cost, labour and fertilizer considerations, and of influences

*Of course, the curves of marginal yield, marginal nutrient efficiency, and resultant marginal efficiency must be conceived as shifting with changes in technical, climatic and other conditions. The effects of any given change in conditions can be read into the curves and the appropriate acreage adjustment deduced.

arising from the variation of physical conditions in even so small and relatively homogeneous an area, we are entitled to say that the Danish farmers have made an adjustment which could scarcely have been bettered, if it could have been matched, in a planned economy.

It is not the purpose of this paper to discuss how land utilization studies can be used for practical policy-making when they have made sense of the facts and figures. But clearly land use studies which go on from description and explanation to recommendation of particular changes in land use will be valuable in proportion to the real understanding the student has of the forces and influences at work and his capacity to judge the nature, ramifications, and degree of the reaction to be expected from a particular action or complex of action. Applied science derives its powers from pure science; the inventor and practical chemist rely on the findings of the researcher, and can go forward with confidence and success in proportion to the exactness and universality of the "laws" and principles established in the laboratory. If at present all governments and communities grope and fumble when they frame agricultural policies and set themselves to plan and regulate land use, it is largely because we have not yet achieved scientific standards in our studies and rely on hypotheses which are plausible rather than verified.

THE BEGINNINGS OF MONETARY EXPLANATION OF THE TRADE CYCLE

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"We find it (the state of trade) subject to various conditions which are PERIODICALLY returning; it revolves apparently in an established cycle. First we find it in a state of quiescence, next improvement,— growing confidence,—prosperity,—excitement,—overtrading,—convulsion,—pressure,—stagnation,—distress—ending again in quiescence."

Lord Overstone : *Reflections...on the Money Market, p. 31.*

Two conditions must be present in an economic community before we can speak of a monetary theory of the trade cycle. The first condition is the presence of disturbances in economic activity,—those alternations of booms and depressions. The idea of periodicity is the fundamental requisite for its being

called a 'cycle'. Undulatory movement is the nature of economic development. It is not with this kind of movement that we are concerned here, it is only with the violent fluctuations in economic activity which disturb and shake the organisation to its foundations that we are concerned here. We can call this latter phenomena 'fluctuations' as different from the normal movement of the economic organisation from one position of equilibrium to another. If these fluctuations are violent and periodical they constitute the trade cycle.

Secondly, there must be a monetary organisation ruling the economic community and governing all the decisions of individuals in pursuance of their economic ends. This implies a thorough system of indirect exchange, with money in all its functions ; a kind of currency authority, a government or a central bank with powers to issue and control credit and other kinds of means of payment. It does not matter for our purpose whether the currency system is on gold standard or not.

Economic History tells us that what we call Business Cycles were not noticed in the times before the 18th century. This does not mean that there was continuous economic progress. Phenomena similar to our modern economic crises were observed, but these were not of the same type of the crises which are a phase of the cyclical behaviour of trade. These crises had reasons of their own—some political, some climatic, but all different from being economic. Thus previous to the 18th century crises really occurred but these were due either to some war, failure of harvests or floating up of bogus companies which failed later. These took the shape of panics and in them there was no question of periodicity. So also in the case of some of the crises in Europe in the 18th century they were so marked by their being the result of a particular incident, that they needed no general explanation. Nor was there any observed periodicity in their occurrence. Jevons discovered some type of a ten-yearly periodicity in the case of the crises of the 18th century especially those of 1763, 1773, 1783, 1793, and 1811. But two explanations have been offered in the case of these crises. Firstly, some specific reason has been discovered, like the culmination of the Seven Years' War for that of 1763 and the end of the Anglo-French Wars for that of 1793. A second objection is that they do not form the turning point of the upward movement of the economic progress.

But even if we concede that these form the phases of the trade cycles, we can see that by that time there was already some development in banking and laws of currency. Thus we

see that our second condition of the growth of monetary economy was present by that time. Earlier, economic organisation was not in an advanced state and indirect exchange was not well developed. Of course there was international trade and interregional trade but our only contention is that it was not a full fledged monetary economy in the modern sense of the term.

Side by side with the growth of banking and currency practices there began the Industrial Revolution also in the latter half of the 18th century. It was at this period that ideas of standardisation of goods, division of labour, production for markets with borrowed capital and hired labour spread rapidly throughout the system, thus dissolving the feudal idea of self-sufficient manorial system. A new kind of economic interdependence of places and persons developed by this Industrial Revolution. On the other hand the growth of banking system (the Bank of England being established in the year 1694) with the powers of discounting and note-issue made the monetary system more and more complex. Methods of financing industries from the funds deposited with the Bank of England were evolved. The drain of gold in the last quarter of the 18th century and the Bank Restriction Act of 1797 might be taken as the point where it was recognised that banking system can do much in deciding the activity of trade.

Here we see the best atmosphere for the growth of a monetary theory of the trade cycle. The various commercial crises that have been mentioned above had some kind of a monetary cause behind them. For example, some of the crises were attributed to the failure of banks to finance the speculative booms and joint-stock enterprise that were gradually evolving in those days. But as it is said in the beginning, these crises do not form a phase of the cyclical behaviour of trade. We are concerned in our investigation more with the industrial and trade fluctuations, than with the commercial crises in the narrower sense.

The economic system, both in the field of industries and enterprise and in the field of banking and credit organisations, might be said to have attained the modern shape in the first quarter of the 19th century. The crisis of 1825 was the first one that could not be attributed to any definite cause like the previous ones. It can be said that it is here that a movement of wave-like fluctuations started which continues till now. Thus the last 120 years have witnessed a series of trade cycles. The nature of these cycles is that they produce repercussions all over the world because of the financial and

industrial interdependence of the modern world especially after the Industrial Revolution.

No systematic interpretation in terms of money and credit was attempted in the case of crises prior to that of 1825. Nor, as it is stated above, was there a definite connection asserted between crises and monetary organisation. But some independent theories had evolved already by this time and in them we can recognise a vague consciousness of a monetary theory of price (and not trade) cycles.

The mercantilist prejudice against an efflux of gold was still influential under the guise of 'favourable' balance of trade.[1] Starting with the discoveries of gold in the 16th century in America this idea of welcoming an influx of gold as a pleasant phenomenon and almost abhorring its departure from the boundaries of the country, continued to influence successive generations for a long time. This was reasonable because, they observed that periods following an influx of gold were marked by industrial activity, and those following an efflux being comparatively dull. It is not necessary to mention here all that was done by way of legislation with the main purpose of increasing the country's gold holdings in England.

On the other hand we see the economists of the 18th century formulating some generalisations as regards the relation between money and prices. It was David Hume, who in opposition to the mercantilist theory of favouring an influx of gold, asserted that the 'plenty' of money was not of much consequence. While explaining this fact he definitely states for the first time the exact relation between goods and money in the formation of prices. Thus we find a rough statement of the Quantity Theory of Money. Hume says, "it seems a maxim almost self-evident that the prices of everything depend on the proportion between the commodities and money and any considerable alteration on either has the same effect either of heightening or lowering the price. Increase the commodities, they become cheaper ; increase the money, they rise in their value."[2]

Translating this 'maxim' into a modern quantity equation, we get

$$P=\frac{M}{C}$$

which fairly coincides with the earlier formulations of the quantity theory. Of course, the denotation of the letter M in

[1] Angell, J. W. 'The Theory of International Prices,' p. 12.

[2] Hume's Essays : 'On Money,' Chapter XXV, p. 172.

the modern equations has been considerably increased in the successive periods of the monetary economy due to the inclusion of a considerable number of kinds of media of payments like cheques, bills, notes, etc.

But it is interesting to note that Hume made a contribution in clarifying his concepts of money and commodities in his maxim when he says, "It is also evident that the prices do not so much depend on the absolute quantity of commodities and that of money which are in a nation as on that of commodities which come or may come to the market and of the money which circulates."[3]

Thus his price level is the result of the reaction of the money in circulation on the goods on the market. This gives us the following quantity equation.

$$P = \frac{M}{T}$$

(T being transactions in a period of time).

The idea of international equalisation of prices following the influx and efflux of specie is presented in the Essay of Hume. The usual chain of argument of how gold flows from a country with a higher price-level to a country with a lower price-level thus lowering the price-level in the former and raising that in the latter country and thus bringing the two to the same level is clearly described by Hume."[4]

If we combine these views and examine them we get a rough type of monetary theory of the price fluctuations. According to the mercantilist idea of the gold movements and prices, the growth of industrial activity follows the influx of gold. This is also a period of high prices, according to Hume, because plenty of money raises prices.[5] Again, in the case of an efflux of gold a slowing down of industry is observed and this is a period of low prices (a la Hume) because of the smaller amount of money left in circulation in the country.

It might be noted before we proceed further that Hume was not conscious of the idea of the trade cycle and so he did not endeavour to explain the periodical return of the activity

[3]Hume : *Ibid*, p. 172.

[4]"Of the Balance of Trade", Hume's Essays, p. 186. Cf. "All water wherever it communicates remains always at a level. Ask naturalists the reason ; they tell you, that, were it to be raised in any one place, the superior gravity of that part not being balanced must depress it till it meets a counterpoise."

[5]Hume's Essays. 'On Money', Chap. XXV, p. 167.

and depression, thus making it a complete theory of the trade cycle.

Thornton might be given the first place among those who started with the theories of bank-issues in explanation of the phenomena of crises The circumstances under which he was inspired to give an explanation of the crisis characterise his explanation itself. His "situation in life (as one of the Directors of the Bank of England) supplied information on several topics under discussion"[6] in his work. It was in an enquiry into the "Nature and Effects of Paper Credit of Great Britain" that he put in the first seeds of a monetary theory of crisis. While discussing the advisability of extending bank issues whenever there appears on the money market a demand for them, "which serve the same purpose as gold itself," as capital for industries, he cites what appear to him, the determinants of industrial expansion. According to him "to reproach it (bank paper) with being a merely fictitious thing, because it possesses not the intrinsic value of gold is to quarrel with it on account of that quality which is the very ground of its merit."[7]

On the other hand, paper credit possessed certain positive advantages over the costly luxury of a gold medium. "It would stand on the same footing with the substitution, for example, of the cast iron for wrought iron or steel, of water carriage for carriage, of the steam engine in place of labour of men and horses."[8]

In enumerating the evils of the banking system Thornton spots out the villain of the piece. The tendency of banks to produce occasionally the general failure of confidence, and with it that derangement of commerce and suspension of specie payments (which is analogous to our modern bank crisis) has been demonstrated. Many country bankers during a period of danger "prescribe to themselves a principle of more than ordinary reserve in the issue of their notes."

A second danger against which he warns is that of inflation and the consequent depreciation. This inflation happens because currency is demanded "by the trader to enable him to invest capital in merchandise, which, without them, the merchant would not possess." But because the merchant is thereby

[6]Cf. Thornton. "An Enquiry into the Nature and Effects of Paper Credit of Great Britain" 1802. Preface, p. viii.

[7]Thornton. op. cit. p. 171.

[8]*Ibid.* p. 172.

adding to the annual income of the nation, in their immediate effects the notes are beneficial.

It is very difficult for the bankers to impose a limit upon themselves in the matter of expanding credit. But there is an external limit which is likely to exempt the directors of that institution from the necessity of imposing their own limit. "The true point at which the increase of the paper of the bank ought to stop would be discovered by the UNWILLINGNESS of the merchants to continue borrowing."[9] This unwillingness is however the result of the expected quantum of profit by borrowing at the existing conditions. Thus he considers this question as turning principally on a comparison of the rate of interest taken at the bank, with the current rate of mercantile profit. He proceeds from this to the question of policy which does not "allow either the solicitations of the merchants or the wishes of the government to determine the measure of bank issues." And with the question of policy we are not concerned at present.

Now the analysis of credit, by Thornton as the prime mover of the fluctuations in activity is important in one respect. He was sure that the increase of the paper credit does not, by the same stroke, increase the goods produced. The immediate effect is that prices rise and merchants reap greater profits than formerly and thus there is greater inducement to borrow. This will set the industrial activity in motion.

Ricardo follows the same analysis as Thornton in the matter of market rate of interest and the condition of the yield of profits. Ricardo, while discussing the advantages that accrue to the community by using a paper money, lays down the conditions under which money is borrowed. So this is determined not by the rate of interest alone "whether it be 5, 4 or 3 percent, but by the rate of profits which can be made by the employment of capital and which is totally independent of the quantity or of the value of money."[10] Thus he takes into consideration the view of real costs and real returns of the more modern terminology. The magnitude of the money lent or borrowed is of no consequence. So the demand for money depends upon the rate of profits that may be made by the employment of it and the rate at which the banks are willing to lend it. But Ricardo advanced more than this when he thinks in 'real' capital, real rate of interest (though he does not expressly state so) and real returns. Thus we find the germs of the real rate and market rate analysis of Wicksell used in the practical discussions of

[9] Thornton, p. 283. Capital letters mine.

[10] Ricardo, *Principles* (Gonner edition), p. 351.

Thornton and Ricardo. In the case of note issue the divergence between the natural rate and the market rate is the cause of active borrowing. "It is only during the interval of the issues of the bank and their effect on prices that we should be sensible of an abundance of money, interest would, during that interval be under its natural level."[11] It is here that there is a temptation for the people to borrow for employing it in industry. 'During that interval' the currency is not depreciated and the profits sore high over their natural level.

Thus the contribution of Ricardo to the monetary theory of trade cycle can be summed up by saying that he was the first economist to see how by actively issuing notes in excess (without resulting in an exportation of the coin) the banks can in the immediate period give a fillip to activity if these notes were lent below the market rate. Roughly saying he saw what determines employment and prices. It is this assertion that activity can be given an impetus by actively creating credit that is asserted by several writers that follow him.

From the passage quoted in the beginning of this chapter it is clear that Lord Overstone was the earliest of the English writers to mention the Cyclical behaviour of the fluctuations in the activity of trade. But he did not analyse the causes which bring about these fluctuations.

Overstone recognised that the state of trade can bring some influence to bear upon the condition of credit in spite of the latter being directly based upon metallic reserves. This state of trade influences the effective magnitude of money in two ways. Firstly, making the circulation of money more or less active. Thus he says : "It is perfectly true that the circulation may be in a more active or in a more dormant state. It is perfectly true that the same amount of notes will, at different times, be more efficient in performing the functions of circulation, that in proportion as confidence is firm, the circulation is more efficient and as confidence is shaken the circulation becomes less efficient. A diminished efficiency of circulation and a contraction of the amount in circulation may in some respects produce the same results; but they are still totally different things."[12] Overstone expressly maintains that this change in the effectiveness of money must to some extent be due to the varying proportion of cash reserves which the banks hold against

[11] Ricardo's Economic Essays : "On the High Price of Bullion" (Gonner edition), p. 35.

[12] Lord Overstone, 'Tracts', p. 513.

deposits.[13] A second result of the influence of the state of trade on the magnitude of money is by increasing the amount of circulation itself even under a purely metallic currency. "I apprehend, undoubtedly, that it is perfectly possible that credit, and the consequences which sometimes result from credit namely overbanking in all its forms, and the overissue of the bills of exchange....may arise with a purely metallic currency and it may arise with a currency consisting jointly of metallic money and paper notes promising to pay in coin."[14]

Thus by an increase in the effectiveness of circulation and by an increase in the magnitude of credit, the banking system responds to an optimistic buoyancy in trade.

But he notices that fluctuations in business activity are initiated by several causes which are beyond the pale of monetary mechanism. "Fluctuations in the amount of currency are seldom, if ever, the original and exciting causes of fluctuations in prices and in the state of trade. The buoyant and the sanguine character of the human mind; miscalculations as to the relative extent of supply and demand; fluctuations of the seasons; changes of taste and fashion; legislative enactments and political events, excitement or depression in the condition of other countries connected with us by active trading intercourse; an endless variety of casualties acting upon the sympathies by which masses of men are often urged into a state of excitement or depression;—these, all or some of them are generally the original exciting causes of those variations in the state of trade to which the report refers."[15]

Thus he stresses upon the psychological causes as the starters of fluctuations, rather than monetary causes. Monetary conditions take the part of necessary conditions for determining the magnitude and the frequency of these fluctuations. It is why "a well managed currency cannot prevent the occurrence of periods of over-trading ;....but it may tend very powerfully to diminish the frequency of their return, to restrain the suddenness of their outbreak and to limit the extent of their mischief."[16]

The first phase of the monetary theory of the trade cycle might be said to culminate with the discussions regarding the note-issues of the banking system in England. I refer here to the vast literature that grew round the report of the Bullion

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[13] *Ibid.* p. 343.

[14] *Ibid.* p. 349.

[15] Overstone : 'Tracts.' p. 167.

[16] *Ibid.*, pp. 119-20.

Committee in the year 1810 and Peel's Act. We have seen above some of the opinions of Ricardo on this matter. The main assumptions and the conclusions of the Report are based on the arguments developed in the "High Price of Bullion" of Ricardo.

Herein the classical doctrine of the demand for specie and its distribution according to the needs of trade in various countries is expounded. On the same lines as adopted by Hume Ricardo proves how an excess of specie (occasioned by the discovery of a mine or release of cash from the Bank) sets up forces which ultimately bring about international equalisation of price-levels. This is the same both in the case of purely metallic or convertible paper currency. But in the case of inconvertible paper there is no such automatic device as to bring about this. In the case of metallic and convertible currency there are checks upon their over-issue, the limitedness of specie and the obligation to pay in gold. There are no such checks upon the inconvertible paper. Hence the danger of depreciation is present here. The Bank Restriction Act by removing the responsibility on the banks to pay in cash when demanded made the Bank absolute master of currency. So he said, the Act must be repealed.[17]

As a test of depreciation of the notes he cites the fact of "High Price of Bullion" and the low exchanges. These two are the results of the unfavourable balance of trade. An unfavourable balance of trade can arise out of high prices at home resulting from a redundancy of medium of payment.[18]

Thus the movements of gold must be followed by movements of the magnitude of currency in the country. The proposals of the Bullion Committee were rejected by the directors of the Bank of England and they believed that the danger of depreciation cannot arise so long as the currency is regulated on the basis of commercial paper. But the crisis of 1825 proved that the commercial paper cannot represent a genuine demand for notes because the notes depreciated even though they were issued on the basis of commercial paper. Even the convertibility of notes could not be an effective check because the issue could not be regulated. This was because the country banks also issued notes.

So only one principle remained without much damage. The principle of self-regulating metallic currency was in practice followed by the Bank of England but because there was no legal restraint the bank could not always act according to it. The

[17] 'High Price of the Bullion' (Gonner edition), p. 21f.

[18] *Ibid.* p. 19.

idea of metallic self-regulating currency was the essence of the whole argument of Lord Overstone.[19] He argued that because of the union of Banking and Issue functions of the Bank of England and because of the power of the country banks also to issue notes several important difficulties arose. Firstly, the temptation of the higher rate of interest on the mercantile loans, the banks were indiscriminately extending credit. The power of the country banks to issue notes frustrates any intention of the Bank of England to restrict its issues because the scarcity thus caused was supplied by the issues of the country banks. Thus from this certain important conclusions follow.

"(1) Because the paper circulation is thus issued upon mercantile securities, and there is, therefore, a strong tendency to increase its amount with rising prices and to diminish its amount with falling prices ; *which is the reverse of what would take place with a metallic circulation.*"[20]

"(2) By the conflicting action of the two sources of issue (country issues and those of the Bank) the aggregate circulation is maintained at a comparatively uniform amount, during a period when the long continued and heavy drain of bullion required a corresponding contraction of circulation."[21]

So he prescribed the metallic basis of currency as an absolute criterion of policy, the adoption of which would be possible if a separation of the banking and issue departments was made.

Accordingly, under the influence of this doctrine the Peel's Bank Act of 1844 was passed.

With this we come to the end of the first phase of the development of the monetary theory of the trade cycle. The idea of price cycle was enunciated by each of these currency theorists which is the logical result of the specie flows and the regulation of the currency according to the volume of specie.

During the discussion of the views of the several economists noted above we found that the productive activity of the country depends upon the margin between the profit rate and the rate of interest which the merchants have to pay for borrowing. This margin, it is shown, depended upon the willingness of the bankers to issue notes and in the condition of the rules governing the issuec of notes. The undue elasticity

[19] Lord Overstone: 'Tracts on Metallic and Paper Currency 1857, pp. 255 seq, Especially, Thoughts on the Separation of the Banking and Issue Departments.

[20] *Ibid.* p. 249.

[21] *Ibid.* p. 257.

of the principles governing the note issue has shown as a cause of the panic. To remove this, such iron rules were framed in the Act of 1844 in determining the magnitude of note issues. But this proved an illusion. They could not distinguish between cash issues and bank deposits properly. So "as a torrent rushing from a great height finding on its way some rocky and at first sight insurmountable obstacle, pierces in another place through a less hardy soil, so the monetary system of England subject to iron rules as far as the note issue is concerned regained through bank deposits its elasticity."[22] This serves for our purpose to say that not only unregulated metallic money but also unregulated bank credit by way of deposits can bring about disturbances from the money side.

Thus we study the influence of deposit credit upon the price-level and upon the disturbances made possible by it in the economic organisation.

AGRICULTURE IN THE INDUSTRIALISTS' PLAN

BY

P. C. MALHOTRA
A. N. AGARWALA

I

1. Professor A. N. Agarwala holds* that "the Eight Industrialists have fixed the target for agriculture produce needlessly low and have made an unnecessary departure from the full and best employment doctrine, a position which has been propped upon the questionable ideas of autarky and balanced economy. The result has been that in assigning a place to agriculture vis-a-vis the industry, they have tipped the balance in favour of the latter to an extent that they have furnished an important line of attack to their critics which could well have been avoided." His particular objections against the Bombay Plan are the following:—

(*i*) The authors of the plan propose to spend about four times the amount scheduled for investment in agriculture on industry.

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[22]Lewinski: 'Money, Credit and Prices,' p. 127. (1929).

*Readers are referred to my article in the 'COMMERCE' of 15th April 1944 and Mr. A. N. Agarwala's articles *'Agriculture in an Economic Plan for India'* in the 'COMMERCE' of 24th June, '44 and *The Place of Agriculture vis-a-vis Industry in the Industrialists' Plan'* in the October '44 issue of the 'INDIAN JOURNAL OF ECONOMICS'.

(*ii*) While they want to increase the national income yielded by industry by 500%, the income contributed to the national dividend by agriculture is to be increased by 130% only.

(*iii*) The plan aims at a purposeless equality in the income yielded by agriculture and industry in the name of a balanced economy.

(*iv*) Why should India aim merely "at feeding her own population adequately" and why not at feeding population of other countries of the world or industrial machinery stationed in India and abroad as well. Industrial development, under the Bombay Plan is not allowed to be hindered by the limitation of the internal demand.

(*v*) "The suggestion of applying autarky to agriculture does not seem to fit in with the suggestion of securing Rs. 600 crores, as favourable balance of trade."

(*vi*) Industrialisation of the country is attempted to be achieved "by throwing agriculture permanently in the throes on backwardness and decay."

2. The objective of the Bombay Plan is to double the net *per capita* income within a period of 15 years. If there was no time-table fixed for the Plan, the task of the planners would have been easier. They could then have been meticulous about holding the scales even between agriculture and industry. But the planners are not so much concerned with maintaining the role of important judges as between one vocation or another; they are practical men anxious to recommend suggestions which can make for the timely realisation of the Plan.

3. The Bombay Plan is founded on physical realities and therefore treats first things first. If it pays a relatively greater attention to industrial development it is guided by the wisdom of economic history of other countries which have raised themselves from a lower to a higher scale of development through industrialisation. In the U. S. A., Great Britain, Germany and Japan as a result of industrialisation the proportion of workers engaged in primary occupations fell as the following figures would indicate :—

U. S. A. .... between 1872 and 1935 this proportion fell from 72·3% to 25·4%.

Gt. Britain ... between 1841 and 1931 this proportion fell from 22.7% to 6.4%.

Germany .... between 1882 and 1933 it fell from 39.1% to 20·4%.

Japan .... between 1872 and 1930 it fell from 84.8% to 50.3%.

India's primary task is to shift from an over-agriculturalised economy to a balanced industry-farming economy, because the weakest spot in our agriculture is that it neither gives full employment to men engaged therein nor releases them for employment elsewhere. To accomplish this primary task industrialisation on a comprehensive scale is essential. Industrial production is more capitalistic than agricultural production. Obviously enough the Bombay Plan could not have lost itself in the purposeless pursuit of allotting the same or nearly the same amount of investment for agriculture as for industries. And then the question of comparative yields from different sorts of investments cannot be divested from that of allocation of funds in different directions. According to M. Manoilesco "as a mathematical result, all other human activities are, on an average, approximately 4.35 times as productive as agricultural activity." This conclusion is based on a study of total income of 22 countries (including. U. S. A., Canada, Argentina, and Australia but not India) in 1896. Mr. Agarwala might call this conclusion "attractive and arresting fallacy", but it is difficult to deny facts by merely refusing to look at them. According to the estimate of Prof. Brij Narain, in the year 1931 all other activity in India was 2·4 times more productive than agriculture[2]. If the test of efficiency is to decide the allotment of funds over different investments, I would remind Mr. Agarwala of the experience of America. A century ago, 80 Americans out of 100 got their living from the land, as most Indians do to-day. Now less than 25 Americans out of 100 work on land, but, aided by tractors, combines, milking machines and other devices, they produce relatively far more than when 80% were employed in agriculture. Such are the favourable reactions of industrialisation on agriculture. Further apart from any question whether profits of industries or the profits of agriculture are greater, it may safely be asserted that the profits of industries are more likely to go to the creation of fresh capital than are the scattered profits of agriculture. In the face of above facts Mr. Agarwala cannot prove the case of tort against the Bombay Planners for having made agriculture play the second fiddle to industries. Economic policies should be based on hard realities and not on false idea of prestige and sentiments regarding a particular occupation. Mr. Agarwala is of opinion that the low returns

[1] "*Commerce*" 24th June. 1944.

[2] Brij Narain : "*Isdian Economic Problems*" (1944) Part II, p. 161.

from investments on agriculture can be due to the reason that agriculture is in the grips of rank inefficiency in which case further capital investment on a large and progressive scale is called for. But a plan's first concern is the maximum efficiency of the entire productive system. It cannot be denied that agriculture should receive due attention and that it would be possible to increase agricultural yield by a wholesale reform of agricultural economy. But agricultural reform in India in the true sense demands structural changes. The mere application of more capital to agriculture is not enough. As regards the change of my being obsessed with 'fear of scarcity and non-availability of capital' I repeat that whatever the imaginary length of the cloth (funds—on the basis of which an economic plan proceeds), scarcity of factors of production, including that of capital will always continue to shadow the economists ; and the economic problem of national planning, therefore, must concern itself with attempts to procure maximum efficiency with less economic sacrifice or equal efficiency with given economic sacrifice. Therefore even if we had the wishful quantity of funds at our disposal, their proper allotment over different forms of investment and the yield expected from them would have to be considered. The politician's zeal for equal and fair treatment on the basis of counting of heads has little application to the distribution of funds over different sectors of a country's economy.

4. The recent economic history of Russia would help us to judge the agriculture vis-a-vis industry issue in a country's plan for economic development. This problem also faced Russia and was thrashed at the 14th Congress of the Communist Party in 1925. The right opposition advocated that the Russian economic plan should begin with a two-year plan in which agriculture and not industry would be the leader. But Russia decided in favour of a rapid industrialisation and Russia has no reason to repent that decision for now she is not only a first clsss military power, a front rank industrial nation but also a progressive agricultural country. In an economic plan a correct start and a proper emphasis on respective claims in the initial stages are the sine-qua-non of successful results. National income of our country can therefore be increased to a given target in the minimum period of time according to the Bombay Plan and eventually Indian agriculture will be found to be as flourishing and progressive it can possibly be under the circumstances.

5. Mr. Agarwala does not understand (to use his own words) "why should India aim merely at feeding her own population adequately," and why not at feeding populations of other

countries of the world or industrial machinery stationed in India and abroad as well. The answer to Mr. Agarwala's inquiries can be given with the help of an elementary knowledge of principles of Economics. Every economic decision is a choice between alternatives. In actual life, therefore, we have to choose between this and that rather than have this as well as that. Now let us turn to the concrete issue whether India should concentrate on the production of agricultural goods for export and whether her agricultural exports can successfully stand foreign competition. Closely allied to the above decision is Mr. Agarwala's apprehension that if Indian agriculture fails to be guided by the policy of having agricultural surplus for exports, she would not be able to secure Rs. 600 crores worth of favourable balance of trade extended over 15 years and would this not weaken the financial resources of the Bombay Plan?

6. When we analyse the list of agricultural exports from India we find that the most important items are the following:—

EXPORTS OF INDIAN AGRICULTURAL PRODUCTS (1939-40)

ARTICLES	% of total products exported	VALUE (in crores)
Tea	78.9	26
Cotton (raw)	59.6	30
Jute (raw)	33.0	19.7
Linseed	46.9	3
Groundnuts	18.3	7

Of the other crops, exports are insignificant, as the following figures would indicate :—

Wheat	Rs.	78	lacs
Jowar & bajra	,,	7	,,
Castor	,,	71	,,
Tobacco	,,	181	,,
Rape & mustard	,,	33	,,

We can certainly endeavour to retain the chief items of export, and this is not inconsistent with the Bombay Plan. But here again some adjustment would have to be made. The extent to which we increase the production of long-staple cotton, to that extent we will be able to reduce both the import of long-staple and export of short-staple cotton. That should not make any difference to the balance of trade. Regarding the exports of

linseed, groundnuts, castor, rape and mustard it would be more advantageous to crush them in the country and export their oil. Tobacco should not be exported in the crude form, as at present. The objective of our foreign trade should be to have as advantageous terms of trade as possible; and insistence on having a surplus of agricultural exports for its own sake, would serve no purpose.

7. Regarding other items of agricultural exports, they are insignificant. It is impossible to conceive that Indian agricultural produce under the conditions in which production at present takes place in our country, can compete with agricultural products of those countries where agriculture has been mechanised. Again there is a new danger that threatens our exports of agricultural products. The growth of substitutes in staple fibre (for cotton), rayon (artificial silk), sisal, Newzealand flax and Canadian sackwool (for jute), and similar other ersatz products cannot be ignored. When our agriculture has been reconstructed the position might be different. Where is then the difficulty in understanding why the Bombay Plan suggests that India "should not aspire in the *initial years* of planning to export to foreign markets?"

8. The balance of trade in 1939-40 was Rs. 44.13 crores, in 1940-41, 42 crores and 1941-42 and 1942-43, Rs. 80 and 84 crores respectively. The major items of (?) are not likely to change in the immediate future. We may assure that as a result of the policy of industrialisation our imports of consumers' goods would fall but this would be made up by the increase in the imports of producers' goods. On the export side our exports of semi-manufactured goods would increase which should make up for the loss in value though not in bulk arising out of either slight contraction or change in the nature of our exports. Nor is the sum of Rs. 600 crores in a total investment of Rs. 10,000 crores such a big item that a slight variation in the figure relating to our balance of trade will jeopardise the execution of the Bombay Plan.

9. The gravamen of Mr. Agarwala's charge against the Bombay Plan is that the Plan has "tipped the balance in favour of industry and that industrialisation has attempted to be achieved by throwing agriculture permanently in the throes of backwardness and decay." Now it is true that the Bombay Plan suffers from certain omissions and ambiguities. It has not squarely faced the issue of agricultural reconstruction. But it has shown the place of industrialisation in the country's development in its true perspective. It has acted on the practical maxim "first things first" without upsetting the important

position of agriculture in Indian economy. As the Bombay Plan says, "although ultimately the contribution of agriculture to our national dividend will be only 40% as compared to 53% in 1931-32, it will not change the essentially agricultural character of our economy. From the point of view of employment, agriculture will continue to employ the greater part of our population." Again it cannot be denied that agricultural development above a particular stage would be handicapped for want of development of basic industries and consumers' goods industry. Shall we use imported chemical manure, employ imported tools and implements and other mechanical devices? Shall our schemes for electrification of rural areas and development of rural transport be held up for shortage of necessary equipment and material at home? In fact the conflict between industrial development and modernised agriculture is artificial; and the true well-wishers of agriculture in our country would do well to bear this in mind.

P. C. MALHOTRA

II

1. Prof. Malhotra admits that the "Eight Industrialists" have not been "meticulous about holding the scales evenly (*sic*) between agriculture and industry" and that they "are not so much concerned with maintaining the role of important judges as between one vocation or (*sic*) another." This is exactly what I sought to prove in my article appearing in the October issue of this *Journal*; and I am glad Prof. Malhotra himself concedes this. This considerably lessens the need and relevance of his criticism of my views. Two important points should, however, be noted in this connexion. Firstly, the "Eight Industrialists" claim that they have maintained an even balance between agriculture and industry : but Prof. Malhotra does not evidently think so. Secondly, what Prof. Malhotra really wants to discuss is that granting that they attach *undue* importance to industry, what is the harm? (This incidentally was not what I discussed in my article under reference.) The question might be paraphrased as follows: What is the *harm* if the Bombay planners attach a *harmful* degree of emphasis to industry! This is a ridiculous query indeed. At several places Prof. Malhotra trumpets the virtues of balanced economy and says that the Bombay Planners have sought to establish such an economy by making the best use of economic resources. He, however, does not appear to be clear on the point that the full and best utilization of economic resources, which is what economic planning really means, cannot be accomplished without main-

taining proper balance between various occupations. His reasoning, therefore, involves a great contradiction.

2. Prof. Malhotra says in para. 3 above that the percentage of population dependent on agriculture in some progressive foreign countries is small and that industries can give fresh employment, both of which statements are correct. But when he says that because industrial production is more "capitalistic" than agricultural production, hence *total investment* in industries must be greater than total investment in agriculture, I do not think he is drawing a correct conclusion for his statement involves an evident and elementary arithmetical inaccuracy. He further discusses how yield from agriculture is more than from industry and so we should try to industrialise rather than develop agriculture, which point I have repeatedly discussed threadbare elsewhere to which a reference may be made.* Comparative yield is a question of fact and of actual comparative efficiency levels. Then, again, the natural gifts with which a nation has been endowed should also be, so far as possible, fully utilized with a view to maximize national dividend. Finally, he emphasises that investments should be made in order of profitability, but this is what is meant by maintaining a proper balance between industry and agriculture for whichhe does not appear to see any necessity.

3. Prof. Malhotra further implies that either Indian agriculture can feed her own population or feed external population and Indian and foreign manufacturing industries, because in life "we have to choose between this and that rather than have this as well as that" which he calls "an elementary knowledge of principles of Economics." I do not know which important theory or theories Prof. Malhotra refers to here, but it is evidently a very wrong and almost ridiculous statement to make. Applied to the productive capacity of Indian agriculture, this statement becomes extremely odd.

4. In para. 6, Prof. Malhotra further says: "We can certainly endeavour to retain the chief items of export and this is not inconsistent with the Bombay Plan." It is in fact very much inconsistent with the Bombay Plan which stands for autarky in relation to agriculture. Prof. Malhotra himself quotes something to this effect in para. 7 from the Bombay Plan. I have discussed this point threadbare elsewhere and established that this seems to be the implication of the plan under reference.†

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* See my article *Agriculture in an Economic Plan for India* in 'COMMERCE' of June 24, 1944.

† See my books *Pessimism in Planning* and *A Critique of the Industrialists' Plan.*

5. Prof. Malhotra is unduly optimistic when he says that in the post-war years our exports of semi-manufactured goods will increase to such an extent that we can establish a credit balance to the tune of Rs. 600 crores in 15 years even if our agricultural exports are reduced to zero. This point has also been discussed by me elsewhere and I think it needless to repeat the whole thing here.*

6. In para. 9, Prof. Malhotra himself admits that the Bombay Plan "has not squarely faced the issue of agricultural reconstruction" which is exactly what I have been consistently maintaining in the articles referred to by him and also elsewhere. If Bombay Planners believe that India stands in need of industrialisation to such an extent that we must first industrialise with single-minded devotion leaving agriculture for the time being out of consideration save to the extent to which it must be developed to make the required measure of industrialisation—and this is really their position—then let them call their plan "An Industrial Plan for India", in which case they would not expose themselves to the charge of giving step-motherly treatment to Indian agriculture in their plan. But when they present a mainly *industrial* plan and give it the label of *economic* plan, we would be failing in our duty if we do not point out to them that in their zeal to industrialise the country they must not run over agricultural progress or hold it in abeyance indefinitely in a manner that will be inimical to maximum economic prosperity.

A. N. AGARWALA

REGULATION OF ORGANISATION AND MANAGEMENT OF INDIAN JOINT STOCK BANKS*

BY

A. R. BHAT, M. COM.

[*Synopsis* :—Government action in regard to comprehensive banking legislation has all along been half-hearted. The proposals of the Reserve Bank are the latest on the subject of banking reform. Safeguards for depositors' interest though essential should not hamper the growth of small banks and formation of new ones. Vagueness in the definition of "banking" should be removed on the lines suggested by the Reserve Bank. Minimum Capital requirements proposed by the Bank are not desirable. In order to put a stop to indiscriminate opening of branches, previous permission of the Reserve Bank should be made essential. Ratio between authorised, subscribed and paid up capital proposed by the Reserve Bank is reasonable. Voting rights should be in proportion to the capital contributed by each class of share. To allow only ordinary shares

* *Investment and Finance* (Delhi), June, 1944.

* A paper read at the 26th Conference of Indian Economic Association.

to be issued by banks is the best course. Deferred shares should be prohibited. Preference shares if permitted should be non-cumulative. Banks should not be allowed to be incorporated as private limited joint stock companies. There should be a restriction on the number of votes which a shareholder can have. Percentage of demand and time liabilities to be kept in liquid assets should not be statutorily fixed. Instead, the Reserve Bank should be empowered to order banks, whenever it feels necessary, to increase liquid assets and non-compliance with the Reserve Bank's suggestion should be made a penal offence. Meticulous statutory regulation of day to day administration of banks is undesirable as it would have no scope for business judgment and initiative.]

HALF-HEARTED GOVERNMENT ACTION

It is now over thirty years since the Government of India first consulted commercial organisations with regard to the regulation of banking business in this country. In 1913, they addressed them about the advisability of undertaking legislation about the use of the word 'bank'. In 1920 they consulted commercial opinion regarding the modification of the Form G in the third schedule of the Indian Companies Act. The Majority and Minority reports of the Central Banking Enquiry Committee dealt with the question of banking reform in its various aspects and it was expected that time would not be far off for the enactment of a comprehensive piece of legislation on the subject. But those hopes proved out of place. What the Government of India did was the inclusion of some special provisions relating to banking companies in the Indian Companies (Amendment) Act of 1936. But that did not go far enough. In 1939, following certain bank failures in Southern India, the Governor of the Reserve Bank addressed a fairly long communication to the Government of India embodying proposals for a Bank Act. As usual the Government consulted commercial opinion on the said proposals but informed the Reserve Bank in July 1941 that they did not propose to undertake comprehensive banking legislation on the lines proposed by it "under the abnormal conditions created by the war, in view of the possibility of such legislation being controversial, judging by the lack of unanimity of opinion disclosed by the replies received." As could be expected, the Board of the Reserve Bank "appreciated" the difficulties set out by Government and "acquiesced in the decision, contenting themselves in the meantime with watching how the 1936 amendments to the Companies Act operated in practice and making such recommendations to reinforce its administration as they considered both important and likely to prove non-controversial."

RESERVE BANK'S LATEST SUGGESTIONS

A sufficiently detailed examination of the tendencies exhibited by floatations of a number of banking concerns during

the last two years made the Board of the Reserve Bank again address the Government of India on certain aspects of the capital structure of banking companies, making suggestions for 'corrective action' by undertaking necessary legislation. By their letter of 15th March of 1943, the Government asked for the opinion of scheduled banks and commercial organisations on the Reserve Bank's proposals for 'corrective action' by amending section 277-1 of the Indian Companies Act 1913. The said section has since been amended accordingly.

Since the proposals of the Reserve Bank made in their letters of the 1st November, 1939 and the 30th December, 1942 are the latest on the question of banking reform, it is proposed to examine them in so far as they relate to the *Regulation of the Organisation* and *Management of Indian Joint Stock Banks.*

NECESSITY OF A BANK ACT

BANKS—QUASI-PUBLIC IN NATURE

While discussing the question of regulation of banking, both the Majority and Minority Reports of the Central Banking Enquiry Committee have rightly laid stress on the semi-public nature of the banking business.

The Majority Report states:

"Serving as repositories of the cash resources of individuals and institutions, the banking institutions of a country exercise a very powerful influence on the economic life of its people. Banking business has, therefore, been regarded as quasi-public in its nature, warranting legislation for safeguarding the interests of depositors on whose confidence rests the entire banking structure of a nation and for ensuring and fostering the growth of banking on sound lines."

PROTECTION TO DEPOSITORS

The explanatory memorandum of the Draft Bank Bill annexed to the letter of the Reserve Bank dated 1st November, 1939, states:

"But if there was a separate Bank Act it would be possible to remodel the definition (in the Indian Companies [Amendment] Act, 1936) in a clearer and more definite form by defining 'banking.'........This would enable us to limit the definition to the minimum required, which, as we see it, is to protect the public when they deposit their money with institutions or individuals calling themselves banks or bankers. In this way we could

draw a clear general line between the scope of the Companies Act and the proposed Bank Act. The scope of the former would be generally to protect shareholders, that of the latter to protect depositors, in the same way as the object of the recent Insurance Act is to protect those who insure, the protection of shareholders in Insurance Companies being left to the Companies Act."

OBJECT OF REGULATION

The object of regulation of any economic activity by the State has to be the proper adjustment of the interests and rights of individuals or institutions for the advancement of material welfare of the community. A banker is a dealer whose special stock-in-trade consists of money and credit. A joint stock bank gets its stock-in-trade from the shareholders and depositors and lends it principally to trade and industry. Regulation of the organisation and management of Indian joint stock banks must naturally be such as will, on the one hand, adjust the interests of the shareholders and the depositors, and on the other, foster its business of lending money to trade and industry of the country. It ought, therefore, to be noted that in making proposals for the regulation of Indian joint stock banks with a view to protect the interest of depositors their important function of lending money should not be lost sight of.

MISGIVINGS ABOUT REGULATION

The working of the Indian Insurance Companies Act which has been designed to safeguard the interests of the policy-holders shows that it is coming in the way of the progress of the Indian Life Insurance Companies. Those interested in the development of Indian joint stock banking and those connected with either the control or management of the Indian joint stock banks fear that restrictions that may be placed for safeguarding the interests of the depositors may, in practice, impede their progress.

CONSIDERATION OF SMALL BANKS

Further in any scheme of regulation of India's banking structure interests of small joint banks must receive due consideration. It should be mentioned here that out of about fifteen hundred joint stock banking concerns in British India nearly fifty per cent do provide returns or maintain cash balances required by the Indian Companies (Amendment) Act of 1936. Out of these about seven hundred and fifty concerns

only about a hundred are either scheduled banks or border the conditions laid down for qualifying to be scheduled banks. While regulations, designed to safeguard the interests for depositors, should be such as will put a stop to the growth of 'mushroom' banks, they should not hurt the interest of small banks, by leaving little or no scope for their development.

REGULATION OF ORGANISATION

DEFINITION OF 'BANKING'

For the proper control of banking business and effective execution of the rules and regulations made for the purpose, it is necessary to have as precise a definition of 'banking' as possible. Section 277F of the Indian Companies Act defines a banking company as "a company which carries on as its principal business the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheque, draft or order." The Bank Bill drafted by the Reserve Bank suggests that banking should be defined as "banking means the accepting of deposits on current account or otherwise subject to withdrawal by cheque."

PROPOSAL TO REMOVE VAGUENESS

The word "principal" in the definition of a "banking company" in the Indian Companies Act makes it vague. The Reserve Bank has, therefore, rightly proposed that the activities of banks should be limited by adding the words "and no other" and by bringing breaches under the general penal clause. By such an addition the legitimate field of activities of a banking company is not likely to be restricted because the Bill gives an exhausive list of the types of business which it can transact.

'BANK', 'BANKING' AND 'BANKER'

In the interest of depositors, the Indian Companies (Amendment) Act of 1936 has put certain obligations on banking companies regarding maintenance of reserves, submission of returns &c. The word "principal" afforded a loop-hole to institutions, though they carried on banking business, to claim that there was no obligation on them to submit to the regulations applicable to banking companies in the Companies Act, as their 'principal' business was not the one as carried on by the latter. Such institutions even used the word 'bank,' 'banking' or 'banker'

in their name. The depositors of these institutions got no protection, however small, afforded by the Companies (Amended) Act. In order that depositors should not be misled, in September 1942, the Government of India got added an explanatory proviso to section 277 F. The section, as amended, now runs as under:

"A banking company means a company which carries on as its principal business the accepting of deposits of money on current account or otherwise, provided that any Company which uses as part of the name under which it carries on business the word 'bank', 'banker' or 'banking' shall be deemed to be a banking company notwithstanding that the accepting of deposits of money on current account is not the principal business of the company."

MINIMUM CAPITAL REQUIREMENTS

INCREASE NOT DESIRABLE

Section 277 I of the Indian Companies Act has as per recommendation of the Central Banking Enquiry Committee laid down a minimum paid-up capital of Rs. 50,000 for banks registered after 15th January, 1937. The Reserve Bank thinks that limit to be 'too below'. It has recommended Rs. 1,00,000 as the minimum paid-up capital with which a joint stock bank should be allowed to function. This recommendation of the Reserve Bank, if adopted, would affect many an existing banking concern and especially the formation of new banks in the districts on the initiative of the inhabitants of the mofussil places. Big banks do not think of opening branches in the rural areas and fixing the minimum capital at Rs. 1,00,000 would make it almost impossible for the mofussil areas to float their own banks.

UNFAIR PROPOSAL

Similarly restrictions regarding minimum paid-up capital required by a bank to open a branch in Bombay or Calcutta, or outside the province in which is situated its principal place of business or to do business at places having more than a lakh of population, are not only stringent but would make it impossible for the non-scheduled and even some scheduled banks to grow to their full stature. To provide that a minimum paid-up capital and reserves of Rs. 20,00,000 would only entitle a bank to open branches wherever it likes would give a virtual

monopoly to a few banking companies to cater to the banking requirements of the country. One is unable to see why scheduled banks as a class should not be entitled to open branches at centres of their choice.

CHECK ON OPENING BRANCHES

But nobody can dispute that in the interest of healthy growth of modern banking in this country there must be a check on the indiscriminate opening of branches by banks whether big or small. If there is a danger of the credit structure being weakened by banks with slender capital of their own, there is equally a possibility of the evil of overcrowding of branches of big banks at certain places with resultant cutthroat competition. In this connection, the proposal of the Majority of the Central Banking Enquiry Committee that the opening of a new branch by an existing bank should be subject to the approval of the Reserve Bank, is definitely more sound and desirable than the one made by that Bank itself. While the population of a place may give some indication of its requirements of banking facilities, it is not a very reliable one. Such requirements differ with the urban or rural character of a place. An urban commercial centre would require more banking facilities than a rural centre having equal population. The Reserve Bank, as the custodian of country's credit, would be the best judge of credit facilities required by different centres.

OVERCROWDING OF BANK OFFICES

There is a growing tendency among big banks to open branches at one and the same place irrespective of its requirements. For instance, only a year back Poona City and Cantonment had only eight offices of commercial banks four of them being of two big scheduled banks having their head offices in Bombay. At present it has fourteen offices of commercial banks! Surely, there has not been any sudden increase in its commercial and industrial activity to warrant such an increase in the number of bank offices. It should be noted here that out of the six additional bank offices opened during this year four other scheduled banks, having their head offices outside Poona, have accounted for five. This is surely not a healthy tendency. It would be impossible to check it unless a bank is made to obtain previous permission of the central banking institution to open a branch at a place where already a banking office exists.

CAPITAL STRUCTURE

RATIO BETWEEN AUTHORISED, SUBSCRIBED AND PAID UP CAPITAL

Regarding capital structure of banking companies, in their proposals of November, 1939 and December, 1942, the Reserve Bank has drawn attention to the undesirable practice of incorporating a bank with a huge authorised capital and then commencing business without any regard to the amount subscribed and paid up and has therefore, recommended that provision should be made that at least fifty per cent of the authorised capital of a banking company should be subscribed and that at least an equal percentage of the subscribed capital should be paid up. This suggestion of the Reserve Bank has received general support from all sides, because it is agreed that a stupendously big figure of authorised capital, unrelated to its paid-up portion, is likely to deceive the depositors of a bank and that a relatively big reserve liability does not always prove a reliable safeguard for their interest.

RECENT UNHEALTHY DEVELOPMENT

In their letter of 15th December, 1942, the Reserve Bank has invited attention to the undesirable recent development regarding division of capital into preference, ordinary and deferred shares in such a way as to ensure a controlling voice in the management to an individual or group. The Reserve Bank observes :

"The various devices adopted in this regard are :—

(*i*) a portion of the capital is raised through preference shares without any voting rights ;

(*ii*) the nominal value of the deferred shares, which could easily be distributed among the promoters and their adherents, is kept very low and the holder of one such share is given the same voting right as is enjoyed by a person holding an ordinary share of many times the value of the deferred ;

(*iii*) only a small amount of the nominally large value of ordinary shares is called up.

"The dangers of this practice are not confined to the preference and ordinary shareholders, who, it might be argued, should read the prospectus and judge for themselves. What we are concerned about is the risk to the public. As if profits in any particular year are large, a disproportionately large share

will accrue to the deferred shareholders, there will be a strong temptation to the management to indulge in unsafe or speculative business without proper regard for the interests of the depositors."

VOTING RIGHTS FOR DIFFERENT KINDS OF SHARES

In order to put a stop to this unhealthy, and therefore, objectionable feature, the Reserve Bank has recommended that no Banking Company should have other than ordinary shares. Alternatively, it is suggested that a Banking Company may be permitted to have different kinds of shares, provided the capital structure is such as to allow of voting rights in proportion to the capital contributed by each class of share. Of these alternatives, to allow banking companies to issue only ordinary shares is most desirable. But if it is thought that there is advantage in permitting the issue of both preference and ordinary shares, as is suggested by the Indian Merchants Chamber, Bombay, preference shares should be noncumulative and the voting rights should be in proportion to the capital contributed by them. Banks should not be permitted to have deferred shares, because as pointed out by the Reserve Bank, they are likely to tempt the management to make investments in speculative and unsound channels.

SUGGESTIONS FOR OTHER REFORMS

Further, no banking company should be permitted to be registered as a private limited company if the depositors' interest is to be safeguarded. In the case of private limited joint stock companies there is every chance of the control being centred in the hands of a few individuals Then the privileges and exemptions conferred on a private limited company are such as can be used against the interests of the depositors who are the creditors of a bank.

It is, also, necessary to restrict the number of votes which a shareholder can possess. Recently, it has been noticed that rich promoters of certain banks have issued shares of such big denominations that they are not within the reach of ordinary investors, thereby restricting the number of shareholders, and thus, keeping a substantial portion of the shares either in their own hands or among their kith and kin, with a view to have a controlling voice in their management. This is not a happy feature. It could be kept in check by fixing the maximum number of votes which an individual can have, for shares held by him in his own name or jointly with others, in relation to the total number of shares issued.

LIQUID ASSETS

With a view to enable the bank to meet its obligations to current and savings depositors, the Reserve Bank has suggested that thirty per cent of the amount of demand and time liabilities of a bank should be maintained in each or unencumbered trustee securities excluding immovable property. Since the securities are to be maintained unencumbered, in actual practice banks will have to keep a higher percentage in the form of cash and trustee of securities, thereby curtailing their resources available for investment in trade and industry. Further, if this recommendation is accepted, it will unnecessarily act as a great handicap for Indian banks in their competition with non-Indian banks. In this regard, it would be better to leave this matter to the discretion of the Board and to vest power in the Reserve Bank, to require, when necessary, banking companies, not maintaining reasonable liquid assets, to do so. If instructions of the Reserve Bank are not obeyed, the bank making such a breach should be liable to be punished. Instead of interfering with the discretion of all banks in regard to their investments, the course suggested above as an alternative to the Reserve Bank's suggestion would prove salutary.

LIMITS TO STATUTORY REGULATIONS

In an economically backward country, where modern joint stock banking is only of recent origin, it is necessary, to some extent, to regulate the structure and operations of joint stock banking companies with a view to avoid common pitfalls. But, at the same time, it should be clearly understood that legislation to control each and every aspect of banking operations instead of allowing banks to develop sound business traditions by experience is likely to kill initiative. Further, the circumstances and environment obtaining in this country are a type by themselves. It is, therefore, advisable to regulate only where it is absolutely necessary in larger interests of the economic organisation of the country and leave sufficient initiative to the directorate and management of banks to evolve healthy banking practice most suited to country's requirements. It would, therefore, not be in the interest of proper growth of banking institutions in the country to lay down statutory restrictions on investments and day to day management of banking companies. After all, as Mr. Manu Subedar has observed in the Minority Report of the Central Banking Enquiry Committee,

"........legal provisions could be no substitute for business judgment and wherever they fetter business judgment in the

legitimate activities of the bank they might do no good. Law cannot deside what is safe and what is unsafe and law cannot be kept uptodate with the changing economic conditions which render unsafe today what might have been quite safe at some period in the past......... Laws must not be made in a spirit of panic arising out of an isolated catastrophe."

ROAD-OWNERS AND ROAD-HAULIERS

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The object of this paper is just to flash into limelight the fact that the owners of the roads are different from the hauliers on the roads; that the interests of these two partres are not always identical in practice ; and that this divorce of interests constitutes a substantial external diseconomy to motor transport.

It is contended that with every effort at reducing this divergence of interest there is bound to be a corresponding addition to the private as well as social productivity of the industry. Both the hauliers and the public gain thereby.

It is to be noted that the dual nature of interest in roads—of transport men and of road authorities is inevitable and should continue. Only the resultant diseconomy should be dealt with.

The consequences of this diversity of interest are grouped under four heads, which roughly relate to the four essential aspects of road transport—namely, construction, operation, finance and organisation. Typical instances of disadvantage to the motorman are cited under each head below.

Finally an attempt is made to suggest the lines of approach to the problem of minimising the diseconomy.

CONSTRUCTION

This difference makes itself felt in the very realm of road construction. The provision of road is obviously the responsibility of a local authority, while use is made of it by private operators. The road is intended for the use of the hauliers and the ideal should be economy in operating the vehicle. But the

Local Bodies, which are unconcerned with the transport business, aim at economy in construction. At best—this is rare indeed—they may have in view economy in road maintenance. Often they decide on a poor standard of road, which involves but a small cost. For they do not entertain long range considerations of road maintenance which varies inversely with initial cost and secondly they do not have sufficient capital, even if they are convinced with the real economy of a high cost road. Engineers have often argued that a concrete road which costs a high initial sum is easier to maintain, taking repairs and annual interest together, than an ordinary metalled road, which costs much less at the outset but requires an abnormal maintenance charge every year. It is clear then that even from the point of view of the road authorities the former is a more economic proposition. (Of course it is only where traffic is intensive and mechanical units dense that a concrete road is advisable). And to motor transport it is a real boon. But the divergence of interest between the owner of the road and the operator often results in bad and indifferent road standards.

Further it is ideal that the road should be of a fairly uniform strength throughout, as the railway line. But our roads at present lag much behind the ideal. The following is taken as typical of the absolute lack of uniformity of the crust on most roads. How violently the thickness of the crust changes from mile to mile is conspicuous from this example.[1]

Thickness of crust.	Milestone.	Thickness.
On Guntur-Bapatla-Chinaganjam Road ...	2	1′—2″
	3—6	—6″
	7	—10″
	8	—9″
	9	—4″
		etc.
On Chirala-Narsarowpet-Gurazala Road ...	1—3	1′—0″
	4	—11″
	5	1′—0″
	6—7	—4″
	8	—5″
	9	—9″
	10—11	—11″
		etc.

[1]From the records of the Guntur District Board.

A worse misfortune for traffic lies in the discontinuity in road construction. The financial exigencies of the Local Boards and the administrative conceptions of zonal importance may not quite agree with the dictates of trade and traffic. The road authorities are obsessed with the former considerations, while the operators are plunged in the latter. There may be roads which lead to dead ends—a type not difficult to find in India—which impose a severe restriction on the cruising radius of the motor vehicle. Similar in effect is the absence of the much-needed feeders to frequented roads, from neighbouring villages. If these are built the operator begins to have a wider traffic zone. Sometimes the motorman suffers from the severest handicap of unbridged rivers and canals. The zone of operation is consequently restricted and it is improbable always to expect money-lorn Local Boards to look eye to eye with the operator in matters of through traffic and prolonged zone. The bridge over the Kistna at Sitanagaram may be cited as typical of such vital handicaps to road transport. ·

All these individual indiscretions of Local Boards culminate in a grossly unbalanced network of roads. The Jayakar Committee strikes an unambiguous note on this point.[1] This is a phenomenon in clear contrast to the fairly well-balanced railway lines. The whole length of the railway is contructed by one company which realises the imperative need for a balanced road bed, so that not only are gauge differences avoided on a through line, but uniform weight standards are sought to be maintained throughout. But roads are built and maintained by different authorities—the Government, District Boards, Municipalities etc.—which have different financial and other considerations, which ultimately lead to an entire divergence in road condition. Not between district and district only, not between taluk and taluk only, but between mile and mile of every road we find a difference in the strength to bear the load. It is the height of inequity that even the trunk roads, whose very name is indicative of a national conception, are no exception to this patent defect. It is just in recognition of this state of things that the Central Road Traffic Board, Madras, has recently issued a circular to all Local Boards, saying "At present the restrictions (on vehicle load) vary considerably from district to district." (Tee varying restrictions, needless to say, are a result of varying road conditions.) "The Central Board is anxious to secure a uniform maximum of 5½ tons for trunk and important marketing roads."

[1]See the Report of the Indian Road Development Committee 1927-28. Also the Report of the Mitchell-Kirkness Committee's Report, page 7.

OPERATION

The divergence between road owners and hauliers, is shown to bring about a bad, incomplete and unbalanced road system. It can also be shown to give rise to many operational disadvantages to the road hauliers, due partly to the very nature of the road bed provided, partly to the annual financial outlook of road maintainers and partly to their ignorance of and indifference to the trend of traffic requirements.

It is sometimes the callous self-interest of the Local Boards that forces the average turnaround of the vehicle to a minimum. One trip per day is almost the rule. It is indeed a bad operational device ; for the more the average daily trips the more economic service is, from the point of view of hauliers as well as traffic. But an increased number of trips would obviously have the effect of a reduction in the number of vehicles, which leads to a fall in the number of vehicles ; and the Local Boards prevail on the Road Traffic Boards to restrict the number of trips to a bare minimum. The following passage is clear evidence of the mental make-up of the road authorities, in this connection. "Licence fees are levied according to the present Act at Rs. 17-8 per seat per quarter, irrespective of mileage and number of trips. If no limitation or restriction on the number of trips is placed, there would naturally arise a common tendency to undertake as many trips as possible. This would undoubtedly cause a considerable wear and tear of roads and, from a financial point of view, would result in reduction in the number of buses and the District Board would sustain a heavy loss of income through finances. The difficulty can be avoided if the maximum number of trips can be fixed for each bus. While prescribing this limit, the mileage of each route has to be taken into consideration and the routes may be classed as long distance routes and short ones. The routes of 16 miles and above may be classified as long and the rest as short. One and two trips may be respectively permitted."[1] What a pitiable source of diseconomy it is to make 32 miles the daily ambition of a motor vehicle!

The incapacity of a vehicle to carry a full load is often an insurmountable consequence of low road standards which provoke road authorities to place load restrictions on certain sections of the roads. The pity is that not a whole route or road has the same permissible maximum of load. It is particularly hard on a lorryman to be asked to cut down the load

[1] A proposal made by the Guntur District Board.

on certain sections of the route. The whole route is a unit from the point of view of traffic, for the flow of traffic may be from one end of the route to the ether, with an almost uniform intensity throughout. But indifferently to it, the road authorities break the road into many sections, each of which is treated as a unit in itself.

These limitations are a hardship to the hauliers in two ways. They may result in a curtailment of the load to the bare maximum throughout the route, with the obvious consequence of partial waste of lorry capacity. Alternately, they necessitate frequent transhipment of goods whenever the lorry enters a low load zone, on which its original load is not permitted. This results inevitably in an increased cost of transport. Either way, the motorman suffers a loss on account of the gulf between himself and the road authorities.

The ideal of all motormen is regularity in service. Subject to the hypothesis that there is traffic, it is the condition of the road that determines it. If the haulier is himself the owner of the road bed, as in the case of the railway, he will ensure perfect constancy of road condition throughout the year, so that his service may not be handicapped except by the very dearth of traffic. But the roads, which are actually maintained by others, are often ill-kept and are permitted to degenerate into small ponds and pools at intervals. It is especially so in the rainy season. The statement that the "important taluk centre of Repalle has no road motorable all the year round, though efforts are being made in the direction; some of the important trade centres in the interior are cut off for more than 9 months in the year" occurs in a report of the Guntur District Board and lends unquestionable evidence to our point. In all such cases the motorman is obliged either to abstain from service or indulge in it only unpunctually. Thus sets in his business irregularity, the bane of motor service, the very antithesis of the ideal.

It is not always such natural factors as rains that hamper stability in service. An ill-ordered scheme of repairs may be at the root of it. It is not uncommon that the separation between the road maintainers and the hauliers makes the former indifferently or innocently callous to the circumstances of the latter. They may decide on repairs at a time that just coincides with the busy season of traffic. They may have to decide so for their own reasons; the government allotment for road maintenance, for example, is an annual affair, which allows of no carrying over. Whatever is not spent lapses. It is not uncommon then to find the Local Boards undertake—sometimes

rush through—repairs towards the end of the financial year which is not necessarily the slack season for traffic. A road under repairs is naturally not a thoroughfare; it may have the effect of stopping motor service altogether; at least it delays and irregularises it.

There is yet another operational diseconomy which has its source in the divergence between the owner and the haulier. This relates to the financial uncertainty to which the motorman is exposed; for he is called upon to spend indefinite sums of money on certain items of maintenance, which vary with the condition of the road. The normal outlook of a carrier is to so provide for plant maintenance that, when supplemented with his cost of vehicle maintenance, it is not only uniform over a number of years but the lowest per year also. The railway man, for example, provides such a sum for railroad maintenance that the derived wear and tear of his rolling stock is least and also that both are together the same in magnitude from year to year. But it is different with the motorman. He incurs, as it were, a capital charge by way of licences, which is just parallel to road maintenance cost; but is compelled to incur revenue charges for vehicle maintenance, which bear little relation to the licence paid. His expenditure on tyres and repairs and his provision for depreciation depend mainly on the condition of the road. No amount of care can possibly be taken by him in arriving at an ideal combination of these capital and revenue charges so as to keep them together least in a year. He has no choice in the former and no control over the latter.

FINANCE

The difference between the road-owner and the haulier carves out a rather uncommercial financial outlook on the part of the latter. He has to pay for the road—a part of its original cost, repairs and maintenance; further, his payment is partly for the right to use the road as a carrier. The licence paid by him is an initial commitment and a fixed charge, irrespective of use he makes of the road and the revenue he derives from haulage. It is of course similar to the railway provision of depreciation; but what is significant of notice is that the latter is an ultimate charge on the revenues of the railway and depends on the magnitude of net revenue. This can be postponed to subsequent years, or provided only in small amounts, if the net revenues in a year do not permit the provision. Whereas the initial nature of the motorman's commitment makes him seek to recover every pie of it in the year itself. He develops an annual outlook in business and becomes unable to

undertake any development work in his area. He cannot open up an area or stimulate traffic, which requires a long term outlook.[1]

And it is particularly undesirable that such a vision should be developed by transport men. For, transport is one of those industries whose fructification implies a time lag. The first year of service is never the year of maximum or even reasonable profit. But the nature of the motorman is such that his service is not permanent on any particular route. Hence at no time is he very seriously interested in developing traffic in the area, as the railway, by contrast, is. And the community loses all chance of full development in the motor-served areas.

Now, coming to taxation itself, we find that it depends wholly on the financial policy of the taxing authorities. The government or the Local Board or the Municipality has to balance its budget. Road revenue and road expenditure are after all two items in the budget, whose estimate and provision vary with general financial considerations. Whatever the intention, rarely in practice do road cost and road tax agree. From the motorman's standpoint, the tax is in the nature of a provision for the road bed. In business in general an entrepreneur's capital costs or fixed charges are so designed as to keep the capital equipment in the required order. But the motorman cannot be sure of an exact physical return for the financial provision he is called upon to make. The upkeep of the road is a responsibility outside his scope ; while his contribution is a fixed charge. There is not necessarily any relationship between his payment and the road condition.

We may further analyse taxation into its two aspects. Ignoring the duties on tyres, chassis etc., as the constituents of the general tariff structure of the government, we can distinguish between the tax on petrol and the other tax by way of licence charges. This distinction is significant. The former approximately measures the use made by the motorman of the road, as petrol consumption varies with vehicle mileage which is a rough index of the motorman's use of the road. It is with regard to the latter, however, that there is chance for inequity. The licence paid is partly for the maintenance of road which is damaged by motor service. But the motorman has to pay for it irrespective of service subsequent on such payment; and no re-

[1] There is, of course, the other contributory factor for his short term interest in the route—*viz.* the absence of protection for the bus owner from an unrestricted number of vehicles competing with his own in the subsequent period. The Motor Vehicles' Act has still to be improved upon in this direction.

fund can at all be claimed from the government during those days when the motorman for some reasons abstains from service. As an independent owner of the road bed he would not be obliged to incur much in maintaining it when he does not cause wear and tear to it with service. But as a dependent on the road authorities he has little chance of escaping from this charge.

A study of the motor taxes in the country reveals glaring differences between province and province, nay, even between district and district. Being a provincial subject, further diffused over local boards, it is naturally subject to provincial and local considerations in the matter of taxation. This is inexplicable from the point purely of road maintenance. From the motorman's point of view, different charges are justifiable only when different costs are incurred in the upkeep of roads. It is true that the condition of the road partly depends on physical and climatic conditions and the cost of maintaining it differs from one another. But these natural differenoes between our provinces or districts are not distinct enough to explain entirely these divergences in the levels of taxation. It is improper that the motorman should be exposed to such unreasonable taxational inequalities—unreasonable except on grounds of provincial finances. It may be contended, further, that these inequalities in tax have an effect, though slightly on the exact location of service. If a motorman, not parentally interested in any route, has the option of two routes, one of which involves the payment of smaller tax, he would certainly decide on such a one ; and to this extent the taxational divergence influences location of service.

The worst part of taxational diseconomy is that the tax is not always conducive to, or consistent with, the operating economics of the vehicle. A tax that is based on the size or capacity of a vehicle must be described as bad if it does not lead to its optimum size in general. Similar is the nature of a tax based on horse power etc., if it does not result in the adoption of the best fuel and the cheapest generation of motive power. At times the normal process of progress in motor transport comes into clash with the financial policy of road authorities. This is often a result of their inability to realise the consequence of the taxational structure.

Tolls are yet another source of financial uncertainty for the motorman. They are an anachronic imposition by local authorities and have gradually dwindled into insignificance.[1]

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[1]See recommendation of the Indian Road Development Committee, 1927-28 ; page 52 of their report.

Apart from being inherently high, the tolls are arbitrary and vary from route to route and place to place and often cut into the motorman's ability to make a fair rate.[1] What Mr. Arnold Robinson said of canal transport applies accurately to road transport too. "Most of the charges involved are levied by outside authorities," he said, "and it is to these authorities that the coasting industry must look for help."

ORGANISATION

The wide gulf between owner and haulier has its own influence on the industrial organisation of motor transport. At the outset it can be shown that it leads to a waste of resources sometimes, in the sense that transport facilities furnished are often more than the traffic needs. This disparity between supply and demand arises partly from the dual nature of motor transport itself. The vehicles are owned by small and separate hauliers, who are individually unaware of traffic needs and limitations on the route. The Road Traffic Authorities seek to bring about a balance between motor facilities and traffic needs; but the licensing system is surely fraught with innate limitations and acquired defects. A railway, on the other hand, is able to adjust the supply of rolling stock to the needs of traffic, which it can fully comprehend, being the owner as well as the haulier. Such an automatic adjustment is impossible in the case of motor transport, unless licensing regulation radically limits the number of vehicles on a route and unless governmental measures promote syndication of vehicles on each route. As long as this twin accomplishment is a responsibility of the road authorities and as long as it remains unfulfilled, the discrepancy between traffic and transport is a vice that will continue, to the disadvantage of the road hauliers.

The road authorities are more directly responsible for the waste in resources in some circumstances. Every now and then they enforce load limitations on motor vehicles, especially lorries, on account of the bad condition of roads. At times some roads are altogether closed to motor vehicles, which are consequently put out of service. It is a pity that licences are paid for a term in expectation of continuous facilities for plying over the roads in the zone ; while actually the intermittent restrictions reduce their revenue-earning capacity. It is just in the nature of capital equipment locked up, being fixed to a

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[1]Mr. Arnold Robinson's "The Coastal Trade", Institute of Transport Journal, May 1937, Page 300.

barren zone. It may be noted that it is not uncommon for the railway too to impose such restrictions on its own trains. But the rolling stock is carefully regulated to other areas, lest it be idle or under-used. But this is not possible in the case of motor transport.

Typical of these restrictions is the one imposed by the Guntur District Board on lorries in the Repalle and other Taluks, recently. The lorrymen complained that "most of the lorries are not having full time transport service on account of the fact that some important roads of this district are barred for plying lorries." They lost all chance of carrying paddy which it was their intention to carry when they had taken the licence.

Funnier still are those restrictions which curtail transport in the face of swelling traffic. Here again the attitude of the road authorities is influenced by the condition of the road. It is easy to realise what loss the motorman sustains and what disadvantage the public feel, if all on a sudden his plying zone is shortened and the terminus fixed a few miles behind the former one. The example may be cited of the closure, recently, of the road between Kadavakuduru and Inkollu on the Bapatla-Inkollu route, in the Guntur District. This has reduced the motorman's zone (and revenue-earning capacity) by 16 miles on a round trip; while the public of many other villages than Inkollu suffered much from the cessation of motor traffic.

We shall now turn to the chronic misfortune of motor transport—*viz.* an excessive supply of vehicles on most routes. No motorman is interested in increasing this number; on the other hand he seeks to invoke the Road Boards to refuse further licences. But, how different is the outlook of the road authorities—*e.g.* district boards—which are interested, financially, in the largest possible number of vehicles in their area.[1] They may view through the glasses of naked mercantilism and aim at the largest revenue therefrom, in the shape of tolls, vehicle tax or petrol tax. Their revenue is at a maximum when there is a large number of vehicles. Consequently the route becomes a free playground for all fresh entrants, who sow live seeds of competition in the field. Internal competition partly has its genesis in this divergence in interest between the road authorities and the road hauliers.

Now, the railway significantly differs from the motor in that the ownership of rolling stock is always preceded by some definiteness of route and road bed; while in the case of motor

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[1]See page 4.

transport it need not be and normally is not. The registration of a motor vehicle is independent of the road to be plied over and it is only subsequently that the motorman begins to choose a road. In most cases it is in the remunerative areas—already busy roads—that he too desires to try his luck. One reason which precipitates this choice is that other roads are either poor or do not exist. This is one circumstance which vitiates his attention from other than frequented routes. In so far as the condition of the road bed determines his route, such over-concentration in some zones is a result partly of the above divergence.

All these naturally facilitate and often necessitate unhealthy flexibility on the part of the motor. There is little chance of permanent interest being evinced in any road. He looks at it just as a step-child, not necessarily worth his 'nourishment. The route is not developed fully ; nor is there any stability in the service on route.

II

The above study reveals beyond doubt the colossal divergence of interest between the owners and hauliers, the magnitude of which is often lost sight of. Consequently, road haulage, unlike the railway, suffers from a series of external diseconomies. It need not be supposed that to save road haulage, from them roads should be entrusted to a group of hauliers. This is unintelligent and impracticable. The hauliers are but one of the many parties interested in the road. Private car owners, public hauliers, cycles, motor cyles, bullock carts, pedestrians, government—all are concerned with the road, though the motor hauliers are the most important section creating the demand for the road. The alternative then is to aim at the minimisation of this diseconomy, allowing the inevitable continuance of the dual interest in roads.

The divorce of the road-owners' outlook from the hauliers' has its manifestation in the constructional shortcomings. Little of foresight is presented by the road builders, particularly as regards the traffic possibilities in future. They do not appreciate, as the railway builders do, that once a bad road bed, it is likely to be so for ever. It is no doubt difficult to estimate further potentialities of the zone ; but cooperation with the hauliers and commercial study of the area would go a long way in placing at the disposal of hauliers a road standard suitable to the demands of traffic. But fundamentally the authorities must show their preparedness to spend larger sums at present with the future needs in view.

The hauliers cooperation in road building matters is an indispensible source of economy to both parties; for, short of road building itself, their liaison with road-owners becomes an unrivalled palliative to the above handicaps. The road builders should elicit the mind of the hauliers in the opening up of new or neighbouring areas through roads—which road to open first, of what length and of what standard; in improving existing roads—which particular method or betterment causes least delay for traffic and confers best advantage on it; and affecting repairs to roads—in what season they are imperative and in what season they should be avoided in the interests of traffic. They must further feel the pulse of haulage, when they introduce load restrictions or close roads; so that the hauliers are not suddenly inconvenienced.

There is always the difficulty of concretising this liaison with road hauliers, who are too unwieldy and disorganised. They are universally felt as an administrative bug-bear; but the Government cannot but deal with them, with a preliminary attempt at encouraging them into manageable syndicates. The road authorities will have made an enviable achievement, if a Traffic Census is taken on every necessary route. Premium must be placed on the hauliers' assistance and the correct census period should be chosen (it may vary from road to road). The Census is for them a practical manifestation of the hauliers' view-point and a careful study of it in the light of past figures indicates the normal trend of traffic needs on the road. Repairs can be arranged in the light of seasonal concentration of traffic, if any. The Census constitutes an irresistible plea for road improvements and incidental extensions to neighbouring areas.

The best way of achieving consensus between owners and hauliers is the constitution of Joint Boards of Road Construction, in which practical men with road haulage experience should be included. Their opinions on road building and improvement should be given due weightage.

Owner-haulier cooperation is not all that is necessary in creating an excellent road bed. The unbalanced structure of roads needs rectification through greater affinity between the road-owners themselves. Roads are notoriously treated as local bits of transport and the vivisection of roads to suit administrative requirements has brought about a chain of good, bad and indifferent links. There should be one Board of Construction in a manageably vast area, which should lay down, in the light of traffic study, the general standards to be aimed at on different roads. This would ensure the preservation of similarity in

standard on through roads (*i.e.* roads on which the traffic flow is uniform and regular) and would check the fissiparous addition of roads to the existing system. It is perhaps more important that the existing system of roads should itself be brought under close scrutiny of such a Board, which should specify the general lines of improvement.

But finance is the bedrock on which all schemes are broken. The Local Boards are surely staggered at the financial implications of the above lines of progress. Their resources are undoubtedly unequal to the task, unless the Government makes substantial grants in the initial stages. There is one method of finance, which is not yet fully exploited in India for road construction purposes. Financing roads through loans would quicken the pace of progress in road construction as well as road improvements. Moreover, such Local Boards as have Road Cess Funds can utilise them in this direction. In all these ways they can strengthen their financial ability to the extent of imbibing a progressive outlook on road standard and design, which obviously becomes an external economy to the hauliers.

The rules relating to the annual grants of the Government to the Local Boards should be so amended as to allow of their carrying over for a few years. Such a modification of the rules makes it possible to follow an orderly and well-timed policy of repairs and minor improvements, without fear of lapse of the grants. Apart from the purely routine repairs, all improvements (minor or major) should be pre-scheduled for a term of years ; and each financial year should not be taken as a unit in road matters.

Finally it may be suggested that Local Board Services, if inaugurated, will go a long way in removing the divergence in interests. The Local Board, like the railway, becomes the owner as well as the haulier. All its defects, limitations or peculiarities of construction, maintenance and finance, will have a direct impact on its own services and will be fully appreciated by it as an operator. Any narrow saving in Board expenditure on roads would reduce correspondingly the remunerativeness of the Board services. Proper remedial measures are sure to spring up and the normal notorious gulf would be more than bridged. But it may take a long time before all Local Boards find themselves equal to this function.

In conclusion it may be said that as long as the operator is different from the road-owner, the latter must ensure a fair guarantee, in practice, of a physical return in the shape of a good road for the licence paid to him and must eradicate the haulier's feeling of diseconomy through his exclusiveness from the road-owner.

PRINCIPLES OF SAMPLING AS APPLIED TO INVESTIGATIONS IN AGRICULTURAL ECONOMICS

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The validity of the results of investigations depends upon the observance of rules relating to clear definition, impartiality, feasibility in thought and observation, and recording of experience; and then on treatment of numbers or quantities. The tendency in recent years has been to emphasise the importance of manipulation or treatment of numbers to the partial neglect of the other conditions. Every investigation will be started from thought and this thought will arise either from observation, or from some desire to establish certain conditions, or possibly from a combination of the two. But before any kind of investigation schedule, whether a questionnaire, a census or survey schedule, a financial account or a cost record can be laid out, there must be judgment of what exists; there may be even judgment (though there should not be any attempt at description) of the quantities of various existences; and there will be some selection of these existences for observation, description and measurement. Neither past experience nor desire for future realization must be allowed unduly to induce pre-judgment of the existences or their qualities or relationships and yet in the processes of selection amongst the existences (phenomena) themselves, and of the methods of observation and measurement to be applied, either or both of these *inter alia* may be active. The clear formulation of the objective will lead to the recognition of any bias that may be present from the original cause of the investigation; without clear formulation there is scarcely any possibility of discovery of bias if it is present. If there is a thesis, theory, or reading of experience to be tested, this must be formulated and clearly defined. Then amongst many existences in the universe, those which it is necessary (or most necessary) to observe, record, measure must be selected for it will be rare that all the existences can be dealt with, if indeed, any such case is ever found.

Then when many individuals must be concerned in the process of observation, recording, measuring, as is the case in nearly all investigations in agricultural economics, clear definitions of the known forms of existences must be formulated. Each person who makes a record or supplies the information

for a record, should think of any given condition or thing in, as nearly as possible, exactly the same terms. Ideally, every person co-operating in the investigation should apply one description always to the same thing.

Where a study of relationships of phenomena is the object of an investigation or where data obtained are to be used for a subsequent study of relationships, care is necessary to ensure that measures are taken of all the chief phenomena which may be existing as cause or effect. Rarely if ever is it possible to isolate and measure all causes or all effects, and in a complex like the determination of the cost of a gallon of milk or the profitableness of farms with four or more enterprises, the isolation of the chief forces of a causative character may be a matter of logic and the general analysis of experiences, rather than of statistics. But where measurements of these causes and of their reactions on each other are possible, the measurements of contribution of each to the final results will be based on the statistical theories derived from the study of pure numbers.

But the data handled in their original factual existence before they are described or measured will largely have been made by the activities of man; their observation, description, measurement is entirely the work of man; and the logical analysis for the formulation of methods of treatment is again the work of man. How far the pure uniformities of nature or of numbers may emerge under these conditions it will be necessary to enquire not only in general but in many specific cases.

One of the general cases is that of sampling, and there is always a question whether the results obtained from a limited number of observations are applicable to cases not included in a sample, or whether generalizations that apply to a certain time hold good in other periods as well. The statistician's basis for assuming that a generalization from sample data will be applicable to cases not studied, must be developed logically. In economic investigations we mostly use the ordinary method of inductive reasoning the underlying assumptions of which are general uniformity—or only a limited degree of variation in nature; random selection of sample; and expression of conclusions from the sample data not in absoluteness but in probability, which however can be given definite limits. Any development or adaptation of the mathematical theory of sampling must conform to these assumptions.

In the process of sampling, the statistician follows the mathematician who holds rigorously to the idea of pure chance and "simple" or "random" sample. The general description of

a random sample is that every one of the individuals constituting a universe has the same chance of being selected in the sample and that the selection of a particular individual does not affect the chance of selecting some other individual. Mr. G. Udny Yule gives the following requirements of a "simple" or "random" sample :—

"(*a*) We assume that we are drawing from precisely the same record throughout the experiment........

(*b*) We assume not only that we are drawing from the same record throughout, but *that each of our cards* at each drawing may be regarded quite strictly as drawn from the same record (or from identically similar records)........

(*c*) We assume that the drawing of each card is entirely independent of that of each other...................."*

Is it possible to draw a sample that will correctly indicate the situations in a universe of inquiry ? This is the main problem in sampling in its most practical application.

In actual practice it is soon discovered that in economic phenomena a random sample is very difficult to obtain and that the application of pure chance principle in events not related with one another is not adequate. The limitations of random sampling are well illustrated while dealing four hands of cards in a game of bridge. Each hand is a random sample, yet each player does not possess an equally good hand. Realizing this limitation of the random selection L. Bowley suggests four methods of sampling. They are : random, stratified random, purposive, and stratified purposive. The random sampling corresponds to the selection on the basis of a lottery, whereas the stratified random means taking observations at random in each stratum into which a universe has been divided on the basis of some variable, like type of farming, size of farms, tenancy, physical characteristics etc. The size of sample selected from each stratum depends upon its importance. In purposive selection the units of observation are deliberately selected, the object being to select a sample that will have the characteristics which more or less correspond with some of the known features of the universe. That is to say, if, for instance, a universe contains 30 per cent of the total area cultivated under wheat, 10 per cent under cotton etc., the sample should also contain about the same proportion of these features. The more nearly all the factors approach a given percentage,

*"An Introduction to the Theory of Statistics" by G. Udny Yule, page 336.

the more nearly representative is the sample, provided the distribution of these factors within the sample approaches the distribution within the universe. The purposive selection can also be made on the basis of a stratified sample.

The degree of representativeness required in a sample depends upon the purposes for which the results are to be used. The first consideration in obtaining a sample of any kind is, therefore, to determine the objective that is sought. In the field of agricultural economics there may be the following five objectives :—

(1) Simply to list the conditions that exist in a universe, *e.g.*, varieties of crops grown, breeds of cattle kept, presence or absence of diseases etc.

(2) Simple enumeration—*e.g.*, acres of crops, numbers of livestock.

(3) Obtaining accurate description of complex economic conditions *e.g.* farm revenue and (or) expenditure, farmers' income, or costs of production, etc.

(4) Obtain measures of changes in conditions.

(5) Securing data as regards relationships between different attributes or variables.

In the case of the first objective a very high degree of representativeness of the sample is not needed. In the second case it may be possible to cover the whole universe, but if this is not done a very full sample will be required: In the third objective *i.e.*, when the results of a replica of the universe are to be used in an absolute sense, the sample must be thoroughly representative of the entire population from which it is drawn. But if the sample is to be used in a relative sense, as in objective (4) then the problem is not so much of obtaining a fully representative sample as of obtaining comparative representativeness between the samples that are to be compared. The absolute level obtained in a sample may be too high, but it may very well indicate the change in the whole universe from one time to another. In the fifth objective again, there are relationships between various variables which can be studied by appropriate methods even if the sample is not exactly representative.

In Agriculture, perhaps, sampling has to be considered with reference to two types of investigations :—

(*a*) relatively simple, perhaps tending to deal with some of the biological factors only.

(*b*) relatively complex, dealing mainly with economic and social factors.

The theoretical assumptions about random sampling, are probably applicable to investigations which deal mainly or wholly with the biological factors. But as investigation passes from these to economic and social features, then it is necessary to be careful about any theory of sampling.

In the biological type of investigations the characters to be dealt with may be few and perhaps both few and simple *e. g.*, breed of cow and milk yield ; age of cow and milk yield ; length of ear and grain yield etc. ; and it may be necessary to sample and sample by theory, because there is no probability of knowing the whole universe or even the whole of certain features of the universe. But when we get to economic investigations, it may be possible to know and measure exactly certain features of the whole universe. There may, for instance, be accurate information about acreage, crop areas, number of livestock, number and size of holdings, etc. But it seems there is never any probability of picking or getting by chance any sample approaching perfection of representativeness in all features of farms in an economic survey. In a certain farming area there may be 20, or even more, features which might be selected for sampling, for representativeness of which any sample might be tested. No sample would ever stand such a test.

Where some of the features of the universe are known and have been measured, the shape of the universe is known and when a sample is taken has the shape of the distribution to be determined empirically for every factor ? If a perfect curve is obtained for a certain factor "A" in one sample, the curve for another factor "B" may be skewed ; then another sample may be found in which the curve for "B" is perfect, but for "A" it is skewed. It is just possible that by increasing the size of sample both curves might be brought to perfection, but when to "B" are added "C", "D", and "E" and several other factors with skewnesses, and probably different skewnesses, it seems very unlikely that all curves can be brought to perfection even though the whole universe is brought in.

Does it follow that if the farms in a sample are "too large",

(1) that the productivity per acre or per man will be too high or too low ?

(2) that grain product per acre will be too high or too low ?

(3) that income per farmer will be too high or too low ?

(4) that capital per acre (total or in a specific form) will be too high or too low ?

(5) that profit per cent of capital will be too high or too low ?

(6) that the number of persons engaged per 100 acres will be too high or too low ?

The answer in some of these cases will be known, not by theoretical or mathematical tests, but by previous measures of the total from which the sample has been drawn. The necessary corrections will be known. But having made these corrections in say (2), (3) and (4) can we go on to make them for the other factors (1), (5) and (6) ? Finally can we say with any degree of exactitude what will be the effects of having a sample in which on the whole farms are too big ? The answer to these questions can be given not easily and quickly, but in time.

There is an interesting case of testing a sample for reliability in costs of milk production amongst 600 British herds*. It is known from comparison of the size of herds as found in the survey and size of herds as recorded by the returns for *Agricultural Statistics* that the sample-herds were larger than the general average.

Of this sample it is said that "the average net cost on the sample of wholesale farms for the year was 9.41d. per gallon. There are two chances out of three that the average for all farms lies within 0.09d. of this figure on each side and 19 out of 20 that it lies within twice this range." But it is not "possible to give so narrow a range for the probable level of the total average costs in winter and summer periods separately" for "the standard errors were 0.14d. in winter and 0.10d. in the summer." Here the whole year average was obtained by combining the total for winter and summer and the low standard error was caused by compensations in the greater standard error of the winter and summer periods taken separately. Yet it must appear that if the whole sample is accepted on the test of standard error, equal reliability has to be attached to the summer and winter results separately. A sample which is unchanged must be equally representative or equally unrepresentative over the full length or any part of such a period as a year.

In this general sample there were herds using milking machines and herds without them, 105 of the former and 385 of the latter, in a general class of farms having wholesale contracts. The results of examining representativeness of these samples in respect of various phenomena gave conflicting results.

"A statistical examination of the difference between costs on milking machine farms and non-milking machine farms

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* *The Costs of Milk Production in England and Wales,* (Milk Investigation Scheme, Interim Report, 1937), Agricultural Economics Research Institute, Oxford.

showed that labour costs on farms with milking machines were very significantly lower than those on farms without. The average labour cost on farms without milking machines amounted to 2.29d. per gallon, whereas on milking machine farms it was only 1.86d. per gallon, a difference of 0.43d. per gallon. It seemed likely that the difference would be greater on the larger farms, but in fact, the difference seemed to be little affected by the size of the herd. The chances that such a difference was due purely to errors of sampling were less than 1 in 100, so that a very real difference undoubtedly exists between labour costs on the two types of farms."

"Labour costs on farms without milking machines were also significantly greater than the sum of labour costs and milking machine expenses on milking machine farms. The difference between average costs was 0.29d. per gallon, and again the difference did not vary appreciably with the size of the herd. Here, the probability of the difference occurring purely by chance was 3 in 100, and although still significant was, of course, less so than that of labour costs alone."

"With regard to herd depreciation, the mean depreciation was greater on farms with milking machines, and amounted to 1.09d. per gallon as against 0.94d. per gallon on farms without milking machines, a difference of 0.15d. per gallon. However, as the individual costs were widely divergent, this difference did not prove to be statistically significant as there were as many as 33 chances in 100 that it was due purely to the chances of sampling, and not to inherent differences between the two groups."

"When labour costs and milking machine expenses were added to herd depreciation the difference between costs on the two types of farms was reduced to 0.14d. per gallon, as the mean cost of these items on farms without milking machines was 3.23d. per gallon and 3.09d. per gallon on farms with milking machines. This difference, although not in the least significant statistically, there being as many as 73 chances in 100 that it was due purely to the chances of sampling, was in fact slightly in favour of farms with milking machines. However, considering the width of the scatter and the small size of the sample, no real validity can be attached to the surmise."

It seems very difficult to accept the evidence in one case without accepting it in the other. If the evidence as regards labour costs is good, the evidence as regards depreciation would appear to be equally good, for both sets of evidence are shown from the same farms.

Apart from the handicap of the multiplicity and complexity of features in agriculture, it does not seem to be possible to

obtain a completely randomised sample. In the selection of farms there are bound to be many refusals of co-operation, and as soon as these begin there is a selection which is almost certain to be "biassed". But exactly what the character and degree of bias may be it is difficult to say. Even when the selection system 'one in three' or 'one in four' etc. is adopted, where the subjects are not passive (and farmers are not) there will be refusals and consequently selection and "bias".

It is thus clear that in the field of agricultural economic investigations, the conditions of a simple sample are very difficult to be fulfilled and it is extremely important that the research workers in this field should use the sample data with the greatest possible care. The reliability of any conclusions from the sample data depends upon the number of cases examined and the variation in observations from one unit of study to another, and the conventional measures of the reliability of results taking into consideration both the size of and the variability in the sample are the "standard error of the mean" and the "probable error of the mean." The smaller the value of these measures in relation to the value of mean, the greater the confidence the statistician places in the average of a sample.

The assumptions that underlie the ordinary use of the measures of reliability of the results from the sample data are: a reasonable degree of homogeneity of the universe; representativeness and adequacy of the sample; freedom of observations from non-compensating and compensating errors; and the measurement of dispersion in the universe from which the sample is drawn. It is therefore obvious that these measures can be used to measure only the errors arising from the fluctuations of "simple" sampling or "random" selection and unless the observations are the results of unbiased measurement we are not justified in using the standard error concept in the ordinary manner. Perhaps, in many cases where the limitations to the employment of these measures are serious, it would seem advisable to study the sample data by breaking them into significant groups and sub-groups rather than use mathematical formulae for standard error and probable error.

These are some of the difficulties which an investigator encounters while applying the principles of sampling to economic data relating to agriculture. There is, however, a definite relation between the sampling data and the universe studied. It is entirely logical and scientific to select a certain type of farms or areas to be studied carefully. But the results obtained from the section studied and the universe must be clearly defined, and carefully utilized.

NOTES AND MEMORANDA

ECONOMIC CONTROL IN INDIA DURING AND AFTER THE WAR

War-time economy is, in reality, an economy of control. And this, indeed, is inevitable for war creates a condition in which the peace-time apparatus of economic freedom completely breaks down, and choice in production and consumption ceases to be seriously restricted.

Not that the degree and intensity of economic control is the same in all the countries entering into war. Different countries adopt different degrees of control which might suit their own economic pattern. The economic control now exercised in U. S. S. R. for the purpose of the war is much more totalitarian than in the fascist states, and the latter countries exercise much more rigid control than the democratic countries. But even, then, the extent to which economic freedom is now suspended in democratic countries, and choice in production and consumption restricted would, in normal peace-time, be almost unthinkable.

In India, the economic control exists and extends over a wide range of activities, but the peculiarity of India's war-time economic control is that unlike in other countries, it is entirely unplanned. Unco-ordinated control has at times produced results which are simply chaotic.

The first that deserves mention in the list of economic control in India is the attempt to control prices. In all, half a dozen conferences sat and met in Delhi to discuss the problem, and each conference simply recognized its previous omissions, but did not commit itself to the next bold step that could make control effective. The result was, as we all know, the whole machinery went completely out of its gear, and price control, at least for the time being, existed more as a scheme than as a reality.

The truth is that in order to make price control effective certain essential conditions have to be fulfilled. Firstly, the collection of data regarding commodities must be sufficient. Control without insufficient data is doomed to failure. Secondly, the whole supply of commodities is to be regulated, and their consumption curtailed through proper rationing. Thirdly, the administrative machinery must be thoroughly competent, and be able to rise to the level of honesty necessary for executing

such a task. In India, the progress along these lines has been made haltingly. Black marketing and soaring prices, inevitable under such conditions, could not be prevented. In other countries where price control had been successful, it was chiefly because conditions necessary for success had been fulfilled.

The list of commodities which are subject to control of prices in India is fairly impressive. It includes food grains, cloth, sugar, kerosine, paper, petrol, drugs, fountain pens, iron, coal, machinery, steel, stationery and sundry. Only in Government controlled shops, some of these commodities are sold in rationed quantities at controlled prices. But as the number of such shops fall very short of the total requirements, and as the whole supply of these commodities is not regulated, we have the peculiar phenomenon of double, if not different sets of prices for the same commodity, of which one is the control price, and the other, market, or black-market price. With regard to food-grain and cloth, after many reverses and lapses the position has certainly improved, but much remains yet to be done. The forces of economic laws are stronger than the fancies of the authorities that be, and unless organizations like marketing Boards are set up, as is done in other countries, price control cannot be very effective.

Side by side with price control, goes control of trade and commerce. To prevent hoarding and the consequent bolstering up of prices, anti-hoarding and anti-profiteering laws have been enforced. These are attempts in the right direction. Forward dealings of a wrong and speculative kind have also been banned. But the more important control in trade and commerce is exercised with regard to goods in transit. The free movement of food-grains is banned in many provinces, in Bengal even inter-district transit, without previous permit, is not allowed. With regard to other commodities restriction in the transit of goods appears itself in the form of difficulty in securing the services of wagons. The system of priority is introduced but even then the hardship that it causes is sometimes very intense. At times the crisis in the supply of coal tends to become almost critical.

And not only internal trade, external trade is also subject to rigid control. Free trade in war-time is an absurdity, and exports and imports are invariably regulated with an eye on war purposes, and requirements. In India all foreign trade transactions are subject to previous permit. The export prices of certain commodities are controlled, and so also is the direction to which they are being sent. The recent growth of India's trade connections with the middle East countries is

thus a phenomenon which has grown entirely out of these war-time restrictions on trade. Import trade is also similarly subject to control, and the priority of importable commodities is determined by the availability of shipping space. Owing to shipping difficulty both exports and imports have appreciably declined, though their value remains very much the same because of the rise of prices. India's coastal trade has also been very much affected because of the Government requisition of the few ships which the Indian Mercantile Marine possesses.

Another series of controls which group themselves under anti-inflationary measures relate to money, finance and banking. The restrictions on banks regarding their advances against securities have resulted in the diversion of their funds to gilt-edged and Government securities. Restrictions on the issue of new company shares have left much bank money idle and increased unduly banks' cash holdings. Increased rate of tax, both direct and indirect, has tended to restrict consumption, and the high rate of Excess Profit tax has the effect of making improvement and reorganization of industries difficult. Control is also exercised with regard to the purchase and sale of sterling, apparently with the object of conserving, as far as possible, foreign exchange for war requirements.

In the field of industrial production the control is not as extensive as in other countries, for the very simple reason that heavy industries being absent, the production of war-materials is not at its peak. Only few industries produce entirely for war-purposes ; and they are fully controlled. Other industries producing for civilian consumption devote a part of their resources for war requirements. In agriculture, there is no direct control of production, except that the new campaign of 'grow more food' urges to restrict the cultivation of non-food crops. Only in the Province of Bombay a law has been passed to enforce the compulsory cultivation of food-crops.

Will all these controls, one may rightly ask, come to an end as soon as the war stops ? Or perhaps a more relevant question is : would it be desirable to withdraw all these controls as soon as the war stops and restore the economic machinery to its normal mechanism of economic freedom and choice. Categorically speaking the answer is in the negative, though specific control on the examination of its own merits may have to be withdrawn.

Paradoxically enough, the problem of peace-time economy is more difficult to solve than that of war time economy. In a way, war economy is simple. In its simplest analysis it reduces itself to maximisation of production, and minimisation

of civilian consumption, so that the balance left may be at its highest, and devoted freely to war purposes. But not so simple is the position in peace-time, especially during the period of reconstruction. Civilian needs which remained unsatisfied during the war period will have to be met. The problem of production, and the allocation of the resources to different branches of production have to be carefully handled. For otherwise there would be overproduction in one line, and underproduction in another resulting in waste which must be carefully avoided. The post-war years are likely to witness an investment boom with unhealthy speculative motives, and to curb this, banking advances and share market operations will have to be more strictly controlled.

Price control, after the war, must be more rigid, for post-war price trends will move downward rather than upward, and falling prices are more disastrous, especially during the period of reconstruction, than soaring prices. Many sources of income are likely to dry up, thereby exerting a downward pressure on prices, and the Government must be ready to buoy up prices by controlling investment and financing new projects. In agriculture fair prices must be maintained by controlling the market on the one hand and introducing better marketing facilities on the other.

Much greater control would be necessary in trade and commerce, especially in foreign trade. India must be able to buy from the cheapest and sell in the dearest markets. In post-war years there is likely to be a scramble among the foreign countries for the capture of the Indian market, and it must be a matter of supreme concern for the Government to see that India is not simply made a dumping ground for the sale of the manufactured goods of foreign brand.

Instead of withdrawing them, post-war years will require tightening up of Economic controls. It is only in their initial period that economic controls appear harsh in their effects. But as we get accustomed to them, their harshness gradually wears away, and their usefulness soon tends to become apparent. The old idea of economic freedom is, in these days, a mere relic of a past memory, and 'planned planning' is the new order. But planning involves control. If India is to escape from the morass of her poverty, then planning based on effective control is what she must accept, and the authors of the Bombay plan have therefore rightly warned us that for the next few years "practically every aspect of economic life will have to be so rigorously controlled by Government that individual liberty and freedom will suffer a temporary eclipse."

The Government, we believe, will put planning into action, and the country will give the necessary response.

Visva Bharati,
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THE CASE FOR COTTAGE INDUSTRIES IN PLANNED ECONOMY

In these days when so much is being talked about economic planning, it is necessary to pay due attention to the role of cottage industries in planned economy. There has been a tendency in some quarters to undermine their importance unduly ; and it is necessary to defend them on both economic and ethical grounds.

In spite of some progress made in the field of industrialisation, which has been somewhat rapid since 1930, India still remains an agricultural country, par excellence. Nearly three-fourths of the people of India are directly engaged in or dependent on agricultural and pastoral pursuits. But due to manifold factors our agriculture is in a state of dis-equilibrium. As compared to other countries the agricultural productivity in India is very low. Confronted with highly improved and rationalised agriculture of foreign countries, our agriculture in most places has become unremunerative. In the absence of a sound agricultural policy the Indian agriculture has become today a sheer gamble in world prices. As a consequence the income of the cultivator from his work during the busy season is simply inadequate to enable him to live even a bare animal existence. Agriculture is then a seasonal industry. The persons engaged in it have from 2 to 5 months of pure leisure. This enforced idleness is yet another blow to the low income of the cultivator. The number of those seasonably unemployed is estimated at 41 millions. In other words, more than 40 per cent of India's occupied persons are seasonally unemployed. The presence of such a huge amount of seasonal unemployment in the country is a very serious problem. It not only unduly depresses the standard of living, but intensifies the present deadlock between agriculture and industry. The best way of dealing with the question of seasonal unemployment is to provide employment through the development of cottage industries located in rural centres. It is necessary that these industries must be as little capitalistic as possible and also easy to understand and operate. This will not only give the much needed employment during the off-season but also serve as a

second string to the bow because agriculture is a very precarious industry. The increase in the purchasing power of the peasant which will come in this way will have very favourable effects over the agricultural and industrial development of the country.

The large-scale factory industries are great labour-saving devices. The per-capita output in such factories is comparatively very high. But it is not to be concluded that the using of the most advanced technology or top-heavy methods of production will invariably give us the optimum results. For it all depends on the ratio of labour and capital in a country. This ratio is not the same everywhere. To obtain the best results we have to decide what alternative methods of production to follow at any given stage. We can combine more of labour with less of capital or less of labour with more of capital. A wrong or hasty decision with regard to this will cause great hardship and wastage. Given the time-preference the amount of capital available at any time is limited. As such "if it uses too advanced technology in one sector of the economy it will use up too much capital and too little labour in that sector, while there will be left over too little capital for other sectors and a large army of unemployed labour" This will mean an uneconomic application of scarce means to alternative ends. In India there is plenty of labour but a great dearth of capital. This is quite evident from the rapidly increasing population, huge unemployment and under-employment and the presence of great amount of foreign capital in the country. Under such circumstances the optimum can be achieved only when we make use of less capitalistic methods of production, using the phrase "capitalistic" in the sense of "involving the use of capital." After developing the necessary key industries which will involve the use of considerable amount of capital, we must introduce capital-economising devices in other sectors. Or, in other words, we should produce consumer's goods by cottage industries, as far as possible. When the only wealth which the masses in India possess is labour, what India needs is not labour-saving, but labour-absorbing devices. Cottage industries can do this job very satisfactorily. Hence a very strong economic case for cottage industries in India where capital is much the scarcer factor of production than labour.

Further, the modern large-scale industrialism has brought about a great socio-economic evil—concentration of national wealth into the hands of a few. The appalling poverty of the masses and super-abundant wealth of some in the present-day society is a hard fact. This great inequitable distribution of wealth has created a most dangerous discontent among the

labouring classes, the so-called "haves not." Too large a proportion of the income derived from production has been going to the capitalist classes, while the workers have been living on the subsistence level. The result has been under-consumption which, in its turn, has led to under-production. Thus has started a vicious circle, because in the absence of just distribution there cannot be an efficient system of production. Moreover, it involves the exploitation of the weaker by the stronger. The great majority of the toilers have derived no proportionate advantage from the prosperity which they themselves have created. Besides these defects it is pregnant with dangers to the State as well. Prof. Abbott ably remarks that the community where such a state of affairs exists is perilously near a political oligarchy. And out of this grows that political corruption which is the worst foe and the greatest peril of the nation. Therefore further steps towards such an industrialisation will only accentuate the above process and widen the gulf between the 'haves' and 'haves not'! A well planned development of small scale and cottage industries can greatly help us in this field as well. It will bring about a more equitable distribution of wealth and avoid labour unrest, an indispensable condition for peace and progress.

Cottage industries, on the other hand, also possess certain inherent advantages which, due to the very nature of their organisation, are denied to the large scale mechanised units. There are certain fields which are more or less ear-marked for the cottage industry. The goods which the cottage workers turn out are generally of such a character that they allow no scope for the profitable employment of highly automatic machineries. Large scale production pre-supposes a large and steady demand. Hence it is not an economic proposition where demand is fluctuating and limited. Moreover, the cottage worker living close to his customer knows his tastes and whims fully and as such can satisfy them well. Proximity to the raw materials, labour and market has invested the cottage workers with the potentiality of meeting the competition in their field from large unit of production admirably well.

The actual cost of starting a cottage industry is very low. So is its recurring operating cost. For India, a land of poverty-stricken villages, this fact is of great significance. The natural and healthy setting of the home, the opportunities of following more than one vocation for means of livelihood, the freedom to work as one likes, lend further attraction for the stay-in people of India who hate the rigorous discipline of the factories and its environments which are alien to them.

India is a vast country—a sub-continent in itself. The natural and industrial resources are most unevenly distributed throughout the country. Some of our provinces, Bombay and Bengal, have been developed to great lengths. They are great industrial centres. The important industries of the country are all localised there. The rest of the country particularly the rural areas—the home of India—have been utterly neglected, rendering them simply 'hewers of wood and drawers of wood'. This has not only brought about great disparity in the wealth-producing capacity of the different units, but is also responsible for the growing tendency of dissatisfaction and antagonism between the different regions. This is bound to be intensified under the Federal Scheme when each unit will have still greater local autonomy. *Decentralisation* can alone avoid this, for which the cottage industries would be the most ideal instrument. It is not necessary at this place to discuss the evils of concentration. They are quite apparent. Suffice it to say that it has invited most vehement criticisms from every quarter. As a result, the tendency of delocalisation is gaining strength. Mr. Henry Ford, the most successful industrialist of the world remarks, "wherever it is possible a policy of decentralisation ought to be adopted. We need instead of mammoth flour mills a multitude of smaller mills distributed through all the sections where grain is grown. Wherever it is possible the section that produces the raw materials ought to produce also the finished products. As a general rule, a large plant is not economical." These words coming from such a quarter are very significant. The present war has given further fillip to the movement of delocalisation or wider diffusion of industries. In a war-minded world it is very risky to base the economic structure of the country on a few great industrial centres as they become easily vulnerable to enemy action. It may, of course, be said that such a consideration should not be given weight when we are planning for peace. But who can guarantee that the present war will end all wars. There is nothing which can suggest that war shall be abolished in future. It is, therefore, better not to be escapists.

Let us also note the present tendencies in industrially advanced countries. In France about 99% of the industrial establishments employ less than hundred workers each and of these again the great majority employ less than 50 workers each. In Germany, one of the most industrialised countries of the world, more than 15 % of the total population are dependent on cottage industries. The case of Japan is still more important. "The predominance of small industries", remarks T. Uyedia, "in Japan can be shown by the fact that in 1930 over 50 % of the total industrial labour was employed by

workshops employing less than 5 persons and 70 % by workshops employing less than 50. Even in Birmingham more than 50 % of the industrial establishments are of the small scale type employing less than 50 workers. The Five Year Plan of U. S. S. R. has also given to the cottage industries their due place. These tendencies on the part of the first-rate industrial countries of the world should serve as a good lesson to us. When other countries which are far ahead us in the race of industrialisation are trying to cure the evils of over-industrialisation by supplementing it with a proper and healthy development of cottage industries, should we not take a lesson from it, particularly when our economic and social backgrounds are so well suited to such a course of development. Industrialisation is not bad. It is in fact indispensable for national well-being and progress provided we include in its scope both the factory and cottage industry in proper proportions. Otherwise it will be simply a lopsided development easily vulnerable at vital points.

The case for cottage industries on social and ethical grounds cannot be over-emphasised. As a counter to the modern trend of materialism cottage industries provide a very wonderful contribution. Machinery, the key-stone of modern large scale industrialism, has enslaved man, destroyed human skill and individuality. By invading the privacy of home it has disturbed the morals of the family. It has destroyed the independence of the craftsmen. It compels the adoption of the workman to his work rather than the adoption of work to the worker. "It has annihilated time and distance and has brought nearer the countries of the world, but thrown apart the nations one from the other. It has brought together the bodies but rent asunder the hearts and souls of the people. Worst of all it has narrowed down the vision of Christianity and made it a handmaid of imperialism." The overpowering mastery of the machine age has promoted greatly the spirit of individualism, tending to make rich richer and poor poorer. The competitive ideal has usurped the place of corporate spirit. The state of perpetual war between nations, a glaring feature of modern life, may also be attributed to it.

Unlike it cottage industrialism provides ample opportunities for self-expression and initiative. It tends to develop those qualities in the people which are of vital importance for healthy national development. Raw materials are fashioned in the homes and the very fact of creation stirs the soul of man. Culture and refinement come to the artisan through his work amidst his kith and kin. The work being carried on in the workers' own home assisted by the members of the family, there

will perhaps develop the feelings of mutual trust and confidence, love and affection, duty and reverence. Such a cooperation will not only lead to economy and render labour sweet but will develop the spirit of sacrifice and devotion. In brief, it will lay the foundation of a normal and happy family life. Cottage industries guarantee that happiness which is the result of full exercise of a many-sided human life, not based on exploitation or misery of others. "With such a change in outlook and constant association with the creation of things of use and beauty, a sense of spiritual gratitude cannot fail to revive. Might not this progress provide conflicting India with comforts and peace we all so much desire."

There is also a special reason for preservation and development of cottage industries in India The village has always been the backbone of India's economic as well as cultural life. As factory industrialisation involves the decay of village crafts and the concentration of workers in overcrowded cities, its further encouragement will greatly undermine the "serenity, poise, dignity, spaciousness, proportion, graciousness, deeprooted sureness and eternal simplicity and beauty which have characterised our rural life in the past and have been objects of admiration among our best minds and among those from other countries."

In olden days our cottage industries were in a flourishing stage and were famous throughout the known world. They later on languished due to forces over which they had no control. But they did not succumb completely to the injuries inflicted upon them. The reason for this lies in the fact that they are the product of our peculiar economic background as well as of our social and ethical ideals. In spite of so many odds and handicaps in the past and present they are still very important for the Indian people. Even to-day they hold an important position in our economic structure. Out of a total of 154 million workers the factory industries give employment to less than 2 million workers whereas the handicraft and cottage industries employ more than 14 million workers. According to Dr. Rao's estimate small scale industries afford employment to about 228 thousand workers and the cottage industries to about 6144 thousand workers.

In any scheme of economic planning, therefore, cottage industries must have a decisive role to play. They are not to be treated as 'filling the gaps' for the time being and be liquidated ultimately when the stage of factory industrialisation is reached. It will amount to huge waste of natural resources. Cottage

industries must follow a set plan. To ensure better results they must enter into a relationship of co-operation and coordination with the factory industries. Some of the key industries will have to be conducted on mass production basis in large factories with all the uptodate equipment. The task of planning the small scale and cottage industries is beset with numerous difficulties which necessitates most careful handling. They are scattered over so vast an area and vary so greatly in their characteristic features from region to region that it is impracticable to adopt any uniform policy throughout the country. Planning will, therefore, have to be on regional basis, keeping in view the special needs and tastes of the people of that region. Each region must appoint special survey committees to undertake a comprehensive survey of the existing cottage industries and their future potentialities. The committee should point out the deficiencies and suggest ways and means of improving them. It should also explore the possibilities of starting new cottage industries if they promise success. As far as possible competition between cottage and factory industries should be eliminated. So must be avoided the encouragement of uneconomic industries.

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THE PLACE OF AGRICULTURE IN THE PROPOSED PLANS

Postwar planning for the economic development of India has been engaging the serious attention of the Government and the public for sometime past. Though the Government Plans have not yet been finalised, three important unofficial plans have been thus for published, *viz.*, (1) Industrialists' Plan ; (2) Royist Plan ; and (3) Gandhian Plan. It is, however, a matter of regret that in none of them has sufficient importance been attached to agriculture. We will discuss this proposition below.

Even in the schemes thus far published by the Government of this country, who are so often anxious to do everything for the benefit of agriculture, efforts have not been made to pull up this most largely followed industry adequately. We may take the question of uneconomic holdings alone which is admittedly the greatest stumbling block on the road of agricul-

tural development. The consolidation of holdings will remove the disadvantages of the scatteredness of plots but would still leave the holdings so small that agriculture will continue to remain unprofitable for most of the people The Provincial Governments in India do not seem to be seriously aware of the existence of this evil. When any holding of a cultivator, due to its smallness in size, becomes uneconomic, agriculture does not bring any surplus over the cost of production. As rent is due to the existence of the surplus, uneconomic holding evidently can fetch no rent. But both in Ryotwari and Zamindari areas there is no piece of land which is cultivated and which does not bring rent to its owner. The Provincial Governments enforce the payment of the rent and therefore they do not seem to believe in the existence of uneconomic holdings. Moreover, Provincial Governments have not even tried to collect necessary information regarding the number of cultivators cultivating holdings of different sizes in different regions. This could have been easily done with the help of village patwaris who have all the necessary information with them. By merely shutting ones eyes to the existence of any evil, it does not actually disappear. If any evil is neglected or ignored it has a tendency to grow. In December, 1944 the Government of India published the second report on Reconstruction Planning. In this report uneconomic holdings have not been mentioned and no method has been suggested for removing this deep-rooted evil. Any scheme prepared by the Provincial Governments or the Central Government, in the absence of any adequate measure to remove the evil of uneconomic holdings, will not be successful in bringing about the desired objective of increasing substantially the standard of living of rural population.

The Bombay Plan has also failed to do enough for the agricultural development of the country.* In this plan only 250 crores of rupees have been allotted to finance current agricultural operations in rural areas. The total number of villages in India in accordance with the census of 1941 is 6 lakhs 50 thousand. Therefore the amount available for agricultural development for each village on an average is less than four thousand rupees. It seems that the distinguished industrialists having practical knowledge of large scale industries have prepared no definite and detailed plan for agricultural development. We fail to understand how with a small sum of rupees four thousand, development of an area covering on an average 400 acres of cultivated land can be brought about. This amount will not be sufficient even for constructing one tube-well. Even

* See in this connexion A. N. Agarwala, *A Critique of the Industrialists' Plan* and *Pessimism in Planning*.

ten times the amount would be insufficient for the development of any village on sound lines.

The planners of the Bombay Plan have greatly over-estimated the income which they expect from the proposed investment of 1245 crores of rupees in agriculture. By investing rupees 4,480 crores in Industries they expect an increase in net income of Rs. 1,866 crores per year at the end of 15 years, while by investing 1,245 crores in Agriculture they expect a net increase in income of Rs. 1,504 crores per year (Page 24, Paragraph 19 of Part I). A little calculation leads us to the conclusion that by investing one thousand rupees in industries, an annual income of Rs. 420 is expected but by investing the same amount in agriculture the expected annual income increases to Rs. 1,200. Their estimates of income for industries are based on the information obtained from the balance sheets of Cotton Textile Companies, Cement Companies and Tata-Hydro-Electric Group. But they do not seem to have taken the trouble to examine the accounts of agricultural farms carrying on cultivation by up-to-date scientific methods in India. Allahabad Agricultural Institute owns a farm of about 500 acres and the cultivation is carried on this farm with the help of tractors and other improved implements on the most up-to-date lines. From the detailed accounts of this farm for 1938-39 published in Farm Cost Accounts by Mr. S. R. Misra, B. A., Dip. Agri., the following information has been obtained.

Capital invested	...	...	Rs.	2,02,037
Total receipts in 1938-39	...	...	„	44,188
Total expenses in 1938-39	...	...	„	32,953
Net income in 1938-39	...	...	„	11,235

From the above statement we find that by investing 2 lakhs of rupees on the farm, the value of all the crops raised in the pre-war year was only rupees 44 thousand, which shows that by investing one thousand rupees in agriculture a gross income of Rs. 220 only can be obtained. America is undoubtedly a very greatly advanced country in agriculture. The experience of American farmers is not much different. Agricultural statistics for 1937 published by United States Department of Agriculture gives the following information for 1935 in table 493 on page 394.

Average of the Reports of owner Operators for their own farms for the Calender year 1935.

Reports	... ...	Number 2939
Average size of the farms	...	220 acres
Value of the average Farm real Estate on January 1st ...	...	7725 dollars
Receipts during the year	...	1606 ,,
Cash outlay during the year	...	1054 ,,

From the above statement it is clear that by investing 7225 dollars, the total receipts obtained from the farm was 1606 dollars. This means that by investing one thousand rupees on an average the value of the crops raised would be Rs. 208 only. Even assuming the total receipts to be Rs. 220 for each one thousand rupees invested, crops worth Rs. 275 crores would be obtained by investing Rs. 1,250 crores. Therefore the net annual income expected from agriculture after 15 years in accordance with the Bombay Plan would be 1,160 plus 275= 1,435 crores of rupees and the percentage increase in income would be only 24 and not 130 as estimated by the Industrialists. Most of this increase in income would be absorbed by the increase in population in 15 years and the condition of cultivators would not appreciably improve. The Bombay Plan fails to give sufficient importance or thought to the development of Agriculture in India.

In the People's Plan greater importance has apparently been given to agriculture but the planners have unfortunately committed the same mistake as has been pointed out in the case of the Bombay Plan above. In paragraph 118 on page 35 of this Plan it has been stated that 'in calculating these incomes we are assuming that in agriculture, for all investments excepting that on the reclamation of land the new income that will come as a result of investment of one rupee by way of capital will be 1.2 Rupees'. Why this assumption is wrong has already been proved. The planners have also assumed that the income in the case of new land sought to be brought under the plough can be estimated at 2 rupees per rupee invested. In the case of new land the amount of fixed capital required would be proportionately very large and two hundred per cent annual income on investment is evidently impossible. By investing only 2950 crores of rupees in agriculture, the planners expect new income from agriculture in ten years to the value of Rs. 22,300 crores or nearly seven times the capital invested. This is evidently a great over-estimate. On the basis of an expected income of Rs. 220 for every one thousand rupees invested the new income would be as follows :—

Year.	Capital invested in Agriculture in crores of rupees (according to People's Plan).	Expected new Income in crores of rupees.
I	200	44
II	350	121
III	450	220
IV	500	330
V	450	429
VI	450	528
VII	250	583
VIII	100	605
IX	100	627
X	100	649
Total	2,950	4,136

Whereas the planners estimate the increase in income of the rural population to the extent of 400 per cent at the end of ten years, the maximum amount of increase in the tenth year would not be more than 650 crores of rupees *i.e.* about 72 per cent. From the increased income of Rs. 4,316 crores of rupees in ten years, it would be impossible to get an investable surplus of ten thousand crores of rupees and thus the plan would become unworkable. The condition of cultivators at the end of ten years would undoubtedly be better under People's Plan than under the Bombay Plan but it will not be sufficiently better and we come to the conclusion that People's Plan should be modified in such a way as to bring about at least 200 % increase in the income of the rural population.

The Gandhian Plan undoubtedly attaches very great importance to the development of villages and cottage industries. But even in this plan adequate provision has not been made for rural development. On page 104 the learned author, Principal A. N. Agarwal, says 'Besides the Government will have to provide for cheap credit facilities in order to enable the cultivators to purchase better implements to improve their livestock and to make other improvements in farming. Calculating at

the rate of Rs. 4,000 for each village the total capital required for financing agricultural improvements will be nearly Rs. 250 crores'. It may be noted that the same amount has been allotted in the Bombay Plan also for a similar purpose. We have already shown in the case of Bombay Plan that the amount is wholly inadequate for improving agriculture in any village. On page 105 Principal Agarwal writes 'It is estimated that Rs. 5,000 per village will be required for the development of allied industries to agriculture and other cottage crafts.' The author has not given the basis of his estimates. The amount will not be sufficient even to run a small dairy on profitable lines and it will be wholly inadequate for developing cottage industries in any village on sound lines. He is anxious to quadruple the *per capita* income of at least 90 per cent of the Indian population in ten years but the method he has suggested and the insufficient amount of money he has allotted would not in all probability bring about the desired result.

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AGRICULTURAL POSSIBILITIES IN INDIA

At the instance of the Post-war Reconstruction Committee two memoranda were to be prepared. The one dealing with the Economic Background of 'Post-war Agricultural Policy' was entrusted to Dr Sir T. E. Gregory, and the other on 'the Technological Possibilities of Agricultural Development' was allotted to Dr. W. Burns. These two notes are to form the basis of an "All-India Policy for Post-war Agriculture." Dr. Gregory's note which was expected to be ready by the end of August has not been made available to the public, but Dr. Burns' Report has been published according to the scheduled time-table.

The Burns Report attempts to assess technological possibilities of agricultural development in India (*i*) under conditions more or less as they exist today and (*ii*) under certain conditions *e. g.* decrease in the insufficient cattle population, adoption of scientific methods of cultivation, improved tenancy organization etc. This is certainly a realistic approach to Post-war agricultural policy, but an approach that is lacking in foresight and farsight, an approach that smacks of timerity, an approach that believes in tinkering and not in grasping the bull by the horns. As a short-term policy there is wisdom in exploiting agricultural possibilities within the existing conditions. As a long term policy the stated conditions in the Report are likely to be confused with static conditions. There is even a more urgent need of reconstruction in our agriculture than is the case with

our industries, for whereas in the latter the growth of factory industries is comparatively recent and requires more of construction than of reconstruction, in agriculture real reconstruction is demanded in view of the antiquated nature of this vocation and its predominance as a source of living. Reconstruction would demand a dynamic approach. It would require some pulling down, some building up, some recasting, indeed a thorough overhaul and reorganization. Mr. Burns is perhaps not unaware of this method in its application to India as appears from the approval with which he quotes at the end of his report the following remarks made by late Sir Daniel Hall on the great Soviet experiment.

"What is, however, worthy of consideration is the fact that the man who planned the Soviet organization, men lacking neither in knowledge of the material world nor a perception of affairs, did deliberately abandon the peasant structure of agriculture to which they had been habituated, and have attempted to replace it by large scale exploitation of the land, using all the resources of science and machinery. The motive was to obtain increased production, more food for a vast population that was insufficiently fed and liable to famine, and yet at the same time to liberate more labour for other industries, whereby the total divisible wealth of the population would be increased."

No agricultural reconstruction in India, howsoever strongly backed by the application of science and machinery can produce tangible results unless the tiller of the soil feels that he would be adequately rewarded for all his effort and enterprise on land. This would necessitate a reorganization of land tenures in such a way that the incubus of the non-workers on land (both indifferent landlords and a chain of useless intermediaries between the actual cultivator and the landlord) is removed. Large-scale farming (co-operative, collective or state) should replace fragmented farming so that the application of science and machinery on land becomes worthwhile.

If the above remarks are kept in view the Burns' Report has useful things to commend for immediate and practical adoption.

In chapter I of the Report graphs and statements are used to show the progress of farming in India as a whole and in various provinces during the last 30 years. A study of these graphs and statements shows that with very few exceptions, agriculture was left to shape its own course in regard to the production of individual agricultural commodities. This was quite natural for there has been a complete lack of crop and agricultural planning in India uptil now with the result that

agriculture in India does not even successfully perform its proper functions *viz.* that of supplying nourishing food for the people and good raw material for industry, let apart its being a profitable general way of livelihood.

The recent food crisis has brought the neglected problem of India's food problem in the limelight. Warnings of food shortage with reference to pre-war years fell on deaf years. The circumstances created by the war precipitated a food crisis, but the shortage of food supply even in normal years was a discovery too important to be ignored any more. Once the food question attracted its due attention, problems relating to nutrition and balance in diet naturally became an integral part of the food question. The area of land available per head in British India is 0·86 acre which is even incapable of yielding 'emergency restricted diet' let alone 'a liberal' or a 'well-balanced diet'. The Government of India's Post-war Agricultural Plan also known as the Khareghat plan has in view the nutrition aspect of food production when it envisages an increase of 10% in cereals, 20% in pulses, 20% in fats and oils, 20% in fruits, 50% in vegetables and 300% increase in milk. Agricultural policy must be planned to correct the deficiencies in the diet of the population.

Chapter II of the Report narrates the story of the Grow more food campaign. It concludes that within fairly wide limits acreage and production have been influenced and can be influenced by measures deliberately framed to that end. A combination of persuasion, concessions and compulsion is doubtlessly the best procedure, and compulsion is particularly necessary of immediate profit is likely to interfere with national policy.

In Chapter III Dr. Burns attempts to assess the technological possibilities of each principal crop through the use of improved varieties of seed, the application of manure and the protection from pests and diseases. He also indicates how the milk production in the country can be increased by 75% by improved feeding (30%), breeding (15%), management (15%) and disease control (15%). In this connection it a is interesting to observe that Dr. Aykroyd, in his recent pamphlet on nutrition points out that even a 100% increase in the present supply of milk would scarcely satisfy the nutrition expert and the Khareghat Report puts the target for increase in milk supply at 300%.

The importance of developing productivity of land needs no arguing for there is a vast disparity between production per

acre of different crops in India and that in other countries. The following figures are illustrative of the above fact.

	Rice.	Wheat.	Cotton.
	(Yield in lbs. per acre)		
India	760 to 900	650	90
U. S. A. ...	1500	850	150
Egypt	2000	...	450
China	2,433	989	
Japan	2,300		
Italy	3,000	...	
Canada	...	975	
Australia	...	710	

Dr. Burns' conclusions relating to technological possibilities of increasing yield of various crops may now be noticed. Rice yield can be increased by 30 per cent *viz.* 5 per cent by using improved varieties, 20% by increasing manure, 5 per cent by protecting from pests and diseases.

It should be possible to increase the yield of wheat in irrigated areas from 640 lb. per acre to 1200 lb. per acre by sowing improved varieties, applying manures and controlling diseases.

Similarly possibilities of increase in other crops like maize, bajra, gram, linseed, groundnuts, sugarcane, cotton, jute, etc., are indicated.

The concluding chapter gives Dr. Burns' impressions on 'shape of things to come' in post-war agriculture. The two objectives clearly to be kept in view are (*i*) the abolition of poverty of the cultivator and (*ii*) the abolition of the poverty of the soil. This statement is axiomatically true. So long as the soil is poor, the tiller of the soil cannot be anything but poor. Dr. Burns emphasises the urgency of cutting out several kinds of wastes in Indian agricultural operation and substituting parallel kinds of savings. 'There are waste of fertilizing

material, waste of water, waste of time, waste of soil, waste of money, waste of livestock.' The Indian rural economy is characterised by such a colossal waste in different directions that what appears to be an action of negative value (avoiding wastes) of money, would increase agricultural production appreciably. If rural reconstruction work is able to educate the inhabitants in the ways in which wastes are draining potential agricultural wealth and the methods of preventing them, it will be able to add a good achievement to its credit.

The need for collective action by farmers in any attempt to improve agriculture is rightly emphasised in the report, for certain efforts would bear little fruit if attempted by disparate actions of individuals. 'Soil conservation is a wholesale business. It is no use if one man constructs bunds in his fields if that field is unprotected from wash delivered on it by untreated land above. It is little use one man sweeping up the grasshoppers in his field if the same is not done over every field for miles around."

Dr. Burns considers mechanization of agriculture as useful and economical in India for a number of tasks. He argues to explode the fallacy that mechanization must result in widespread unemployment. Agricultural efficiency means greater production from land at less cost. The use of machinery for agricultural operations may mean fewer men per operation but not per acre because in many ways modern progressive farming actually restores the numbers of men employed upon the land.

Dr. Burns report is an honest attempt to study how Indian agriculture can be made to realise its possibilities. But the suggestions made in the report must be judged in the light of cramped view with which the problem of post-war agricultural reconstruction has been approached.

D. A. V. College,

P. C. MALHOTRA.

Lahore.

AN INQUIRY INTO THE EFFECT OF WAR-TIME PRICES ON AGRICULTURAL INDEBTEDNESS

The problem whether the rising movement of prices of agricultural commodities has led to the partial liquidation of agricultural indebtedness in this country, appears to be still vague in spite of the fact that it has been debated in the Assembly and discussed by economists. It is mainly a problem of investigation and this note sets forth the results of such an investigation conducted in five villages named, Bhalgamda, Tagdi, Zinzer, Parbadi, and Cawkdy with a total population of 3,320 persons. These villages are situated in the Bhāl region, the wheat-store of Gujerat, and thus have been more fortunate in reaping greater advantage from the rise in the price of wheat and from very much favourable monsoons for the last three years.

The soil in this region is fertile and wheat and cotton are the major crops. Irrigation including well-irrigation is not practised at all and hence agriculture is entirely dependent on the monsoon which has been, as said before, exceptionally favourable for the last three years.

An attempt has been made to investigate into the indebtedness of 139 families, out of which 62 are those of the landlords, 63 are those of the agriculturists and 14 are those of the landless labourers. (The figures for the landless labourers relate to the village of Bhalgamda only.) Landlords represent those who own the land, but do not cultivate it by themselves ; agriculturists cultivate the land, partly owned and partly hired by them ; the landless labourers have no land at all and their labour is the only source of income for them. In the following figures a family represents a unit of people having a common kitchen.

In the statistics given below, A class represents those families which were neither indebted in the pre-war days, nor are indebted today ; B class represents those families which were indebted in 1939-40, but which have repaid their debts thereafter ; and C class represents those families, which were indebted in 1939-40 and are still indebted today.

Classes.		Families.	Debt in 1939-40.	Debt in 1944	Fall.
Landlords					
A		16	...	...	
B		18	82,000	...	
C		28	1,86,000	1,35,000	
Total	...	62	2,68,000	1,35,000	50%
Agriculturists					
A		21	..	...	
B		30	45,000	...	
C		12	15,200	8,000	
Total	...	63	60,200	8,000	87%
Landless labourers					
A		4	...	...	
B		4	1,600	...	
C		6	1,900	750	
Total	...	14	3,500	750	79%
Grand total	...	139	3,31,700	1,43,750	56%

1. From the above figures it is clear that the fall in the total debt is about 56% ; in the case of the landlords it is 50% ; in the case of the agriculturists it is 87% ; and in the case of the landless labourers it is 79%.

2. The total number of the indebted families (B and C class in 1939-40) has fallen from 92 to 46 (C class in 1944) *i. e.*, a fall of 50%. The average debt of the indebted families (92 in 1939-40 and 46 in 1944) has fallen from Rs. 3,600 to Rs. 3,125, *i. e.*, a fall of 14%

3. The indebted families (92 families in the B and C class) have repaid about Rs. 1,87,950 during these four years. There-

fore, the rate of repayment per family comes to about Rs. 2,043 during these four years; while the average debt, still to be repaid by the remaining 46 families comes to about Rs. 3,124 per family.

4. Rs. 2,840 has been the rate of repayment per family of the landlords; Rs. 1,240 per family of the agriculturist and Rs. 275 per family of the landless labourers. The debt to be repaid by 28 families of the landlords (C class) is on the average Rs. 4,820; by 12 families of the agriculturists (C class) is Rs. 660; and by 6 families of the landless labourers (C class) is Rs. 191.

From this it appears that the agriculturists and the landless labourers have a fair chance of repaying their debts in the next two or three years, if the prices remain what they are, or if their income and expense levels both fall in the same proportion and if the monsoon is at least as favourable as it has been for the last three years. (I have been just informed that the winter rains have damaged the wheat crop to a considerable extent this year.)

Most of the debts incurred by the landlords were usually by mortgaging their land. Most of these landlords have today discharged their mortgages and some of them have even incurred new debts to repay their mortgages and to use this opportunity to get back their land. Therefore, their repaying capacity is likely to increase proportionately as their earning capacity has been increased by getting their own land back and as their expense level is likely to have been reduced to the extent to which they might have been able to take advantage of the cheap money conditions by borrowing at lower money rates.

5. From all these facts it is clear that the war prices have been a big debt-liquidator for the B and C classes and should have made it possible for the A class, consisting of fairly well-to-do families, which were not indebted even in the pre-war days, to save. It is difficult to estimate the exact amount of their savings, but they must have been considerably large.

These observations are sufficient to show that the increase in prices due to war has changed the shape of agriculture in this part of the country, from what was called a 'subsistence occupation' into a 'paying occupation.' Real progress of Indian agriculture is only possible if this temporary change is made permanent. India is becoming plan-minded and agriculture will have its rightful place in these outlines for future planning of India, if sufficient attention is paid to the following propositions.

1. Due to considerable rise in the price level, the repayment of old debts involves less real sacrifice today than before. Therefore the Government. the Kisan Sabhas and such other social organisations should see that such an opportunity for repayment is not lost by the people. A countrywide campaign should be started under the slogan: "Liquidate all your debts today," and the rural population should be educated to seize time by the forelock, get rid of this century-old curse on Indian agriculture and begin to write on a clean slate.

2. Inability of the farmers to apply capital to land is an important factor which accounts for its low productivity. It was not possible for the farmers to apply capital to land when they themselves were sunk deep into debt without any chance of repayment. But now it has been possible for the A class to accumulate savings and is likely to be possible for the B class which has just emerged out of debt, to save. It is necessary that these savings do not get immobilised in ornaments or hoardings or are not wasted after unproductive activities, but remain available to them for application as capital to land development.

There has been a great impetus to the development of consumers' co-operative societies during this war due to war controls. It is essential that such a wave should spread to the credit co-operative societies also, which should make a bid for mobilising these rural savings.

For the application of capital to land, the farmers should not only be educated in the proper use of scientific fertilisers and the use of modern methods of cultivation, but should also be provided with these fertilisers, improved instruments, better seeds etc. at controlled prices.

3. The savings of the agriculturists are important from another point of view also. It is not unlikely that we may witness a depression at the end of this war. If these savings are properly mobilised today through co-operative and such other savings schemes, then the rural population can be supplied with cheap and adequate credit during next depression, and it will not be left at the mercy of the moneylenders as was the case during the last great depression.

4. It appears from the above figures that about Rs. 1,87,950 have been paid to the various moneylenders by way of repayment of debt during these four years. It is necessary that the money so repaid should not be left idle with the rural moneylenders as a permanent temptation to them to try to induce the farmers, through persuasive methods in which they are experts, to get

into debt again. This surplus with the moneylenders should be pulled into banking channels. This will not only set free capital for trade and industry and will not only contribute to the finance needed for a comprehensive planning—economic, political and social—of India, but will also do away with the prospective evil force of idle money with the rural moneylenders.

5. The war has made it possible for agriculture to be a paying proposition. Sufficient attention should be paid to the fact that agriculture continues to remain a paying proposition even when a transition from war-time economy to peace-time economy has been effected. For this purpose, a balance should be maintained between the income and expense levels of the agriculturists in such a way as to leave a margin of savings for them. Surveys of costs of production on the models of those carried out for sugar and cotton should be carried out for all other agricultural commodities and efforts should be made to maintain price level to this end.

It is hardly possible to draw any universal generalisations from this inquiry, for it has been about an area which has been comparatively fortunate in getting greater advantage from the war prices than other areas like Bengal, Keral a, etc. But, if such inquiries are made into different regions with different conditions, we can have more accurate information on this vital problem.*

Ahmedabad. S. K. J. PATEL

*The figures in the above inquiry have been collected and verified during the investigation in the following ways to offset, as far as possible, the conscious and even unconscious bias of understatement in the case of debts and overstatement in the case of repayment.

1. By going to the head of each of the family and by knowing his position from him.

2. By referring to the village moneylenders and knowing the exact state of affairs from them.

3. By referring to important persons in the village, who are expected to be fairly well-acquainted with the economic position of different families in the village.

It can be said that in the case of the agriculturists and landless labourers, figures tend to greater accuracy than in the case of landlords, where I had to resort to and rely more upon the second and third ways of investigation than the first.

Book Reviews

RECONSTRUCTION IN POSTWAR INDIA, by Sir M. Visvesvaraya. Published by All-India Manufacturers' Organization, Bombay. 1944. Pp. 60. Price Re. 1.

This booklet contains a plea for an all-round development of India on the lines indicated in the Bombay Plan. It is not a summary of or a substitute for his earlier and bigger work entitled 'Planned Economy for India.' That work of his stands as far as the details of the programme go. In this work he has given us some practical suggestions about the manner in which what he has said elsewhere can be done in the post-war period.

Sir Visvesvaraya lays all the blame on the government for the various handicaps from which the Indian businessmen suffer. Industries are discouraged and obstructed. No comprehensive plan for the development of our country is made by the government; they are proceeding in an unsystematic way by trying to tackle problems piece-meal. Nor are satisfactory statistics maintained by the government. Committees and commissions are appointed but their recommendations are not given effect to. All this Sir Visvesvaraya has emphasised in his small book.

There are eight chapters in the book. The first chapter is on the Object and Aim of Reconstruction. Then follows one on Why a National Government is Necessary. The next four chapters deal with Political, Social and Economic Reconstruction. The seventh chapter is entitled A Five-Year Plan. In the last chapter the recommendations are summarised.

In the first paragraph of the first chapter Sir Visvesvaraya says that the primary object is to raise the country's economic efficiency so that people may be able to keep themselves alive. The reviewer feels that it would have been better if some higher aim than merely keeping ourselves alive had been mentioned to start with. In the same paragraph, however, progressively rising standard of living has been mentioned later on as the object. The two ways of stating the object do not harmonise well. There appears to be a printing mistake on the first stage. The sentence, "Everybody will have to work hard after the war, not only in Industry but in guarding and extending their own political liberties," is grammatically wrong.

Sir Visvesvaraya divides reconstruction into three heads, Political, Economic and Social (including Nation-building). Social includes a reasonable level of subsistence.

The heading of the second chapter contains a grammatical mistake. In this chapter it is very ably pointed out why we cannot expect any results unless there is a national government. On page 15 it is pointed out how the writer was a victim of the government policy of neglect and do-little.

In the chapter on Political Reconstruction Sir Visvesvaraya says that the powers of the new government should be the same as those of any National Government. Supreme control over all key positions and particularly over the departments of Finance, Defence, Communications including Shipping, and Foreign Affairs should be conceded from the very commencement. In the chapter on social reconstruction we find a plea for birth control, unity among

people, mass education and self-government for the village. Sir Visvesvaraya further maintains that there should be a National Reconstruction Board and this along with an Economic Council and a Reconstruction committee should work for the all-round development of the country. The National Reconstruction Board would be a non-official body working in collaboration with the government. Its duty would be to select workers for, and form councils or committees to take charge of, particular activities or development to be promoted.

In the chapter on Economic Reconstruction Sir Visvesvaraya says "Railways, shipping and air service will be productive or remunerative services and should be preferred to new roads or road extensions." Perhaps many economists will not entirely agree with Sir Visvesvaraya on this point.

The book contains many suggestions and coming from Sir Visvesvaraya they need careful consideration. But the reviewer feels that the planning of the matter contained in the book is not free from defects. The book is perhaps too small to be effective in its appeal. Sir Visvesvaraya is at his best in works of bigger bulk.

J. K. MEHTA

PESSIMISM IN PLANNING, by A. N. Agarwala. Published by Messrs. Kitab Mahal, Allahabad. 1944. Price Rs. 5-12 as.

Dedicated to Mr. B. P. Adarkar, formerly his colleague on the Economics staff of the Allahabad University, and with acknowledgments to numerous personal friends (on the last page), this volume is analysed into twenty chapters. There is no index and the impression cannot be avoided that the publication was done in great hurry, perhaps for some occasion.

Mr. Agarwala is after all that he has said, a votary of central planning: he is not a pessimist, but a realist: the more appropriate title for the volume should have been "Realism in Planning". There are no revelations in the book (Mr. Agarwala does not claim to be a prophet) but *in the present setting of things in India*, the publication does fulfil a purpose of inculcating in the lay reader a sense of proportion, in the expert a sense of integrity. It is only during the last few days that we have had those brilliant debates in the Central Assembly on the parody that has been made by the authorities of planning and of economic controls, and credit should be given to Mr. Agarwala for having inspired many a legislator with the courage and confidence that were so conspicuous in those debates. On page 133, he rightly points out: "It is not by escaping obstacles but by comprehending them and facing them that we can plan in the right way." This cannot be denied—that the Department of Planning and Development has even now got its own standards of judgment and its own methods of work, and like Nicholas II the last Czar, it appears to be very fond of appreciating its own achievements: only one copy of a newspaper was printed for the last Czar, and that contained all praise for that "great" personality—which grew greater on seeing those praises!

Mr. Agarwala holds that it is too premature for us to "plan" with the international set-up not yet definitely shaped, with the imperial chains still binding our hands and feet; and he is fundamentally right. While all respect is due the personalities that heve taken up the task of planning" in India, their helplessness cannot but be pitied. And *lack of a plan* is the central feature of "planning" in India. A schedule of priorities we

have even approximate allocations we have none, data we have few and highly unreliable, and consultation of different schools of thought and adequate publicity the authorities appear to dread: the Planning Department is prepared to *inform* a committee of the Central Assembly but not to seek its *approval*, and yet the claim is made that the national spirit is there in that Department.

Albeit, it must be admitted that Mr. Agarwala is rather too despondent: on page 6, he says: "We as a nation have been almost lying inert and dormant." If he had been on any of the numerous bodies that have been responsible for reports (for example, on education, health, agriculture, fisheries, forests, etc.), or if he had at least closely studied this series, he should have been enabled to hold a different opinion. Rather the trouble is that the spirit is willing but the flesh is weak: the cat is having its own way, and in spite of so many resolutions by the parliament of rats, the problem still remains—of belling the cat: the head of the Government of India is Indian, but its hand is British—that is, acts according to dictates from the British authorities. It should be easy to give hundreds of examples but these are known to everybody.

On page 21, Mr. Agarwala says that "one of the most important arguments in favour of planning in India is the utter poverty of her people." This is perhaps an old-fashioned view. Why is the American nation planning then—in spite of the *per capita* income there being so high? The fact is that there is no ceiling to human welfare and it is the duty of every community to improve and further improve its standard of life along healthy directions. Of course, the justification for planning in India is imperative on account of the co-existence of utter poverty and gorgeous endowments by Nature.

On page 231, the author says: "the cherished hope of rapid industrialisation and agricultural improvement without devising ways and means of training up a large skilled army of workers is at least an empty dream." This criticism is falsified by the great importance attached by almost every committee on post-war planning to the problem of personnel: as an example, it might be cited that the Education Committee in the Hyderabad State has definitely postponed the introduction of compulsory elementary education to the second seven year period (and not taken up this highly desirable move immediately) entirely on the ground of not having the necessary personnel to work with till after the first seven years. This is in fact the reason for the Sargent Plan going so long as forty years and more. In Hyderabad, there is a separate Main Committee on Personnel and its work has by no means been unhelpful.

Credit is due to Mr. Agarwala for his zeal, and it is hoped that when the second edition comes of this very interesting publication (which will surely be very soon), the author will retain the emphasis on the framework of his theme and at the same time tone up the pages with adequate estimates of the spade work done. Optimism in Planning is the only magnificent fatalism which can bring us Indians a ray of hope. A frank and free condemnation of imperialism and a sober realisation of our weaknesses should not extinguish national life: probably Mr. Agarwala will change the title of his book in the next edition!

S. KESAVA IYENGAR

PLAN FOR BRITAIN—by G. D. H. Cole, Aneurin Bevan, Jim Griffiths, L. F. Easterbrook, Sir William Beveridge and Harold J. Laski. Published by Vora & Co. Publishers, Ltd., Bombay 2. 1944. Pp. 121. Price Rs. 2.

This is a collection of six essays prepared for the Fabian Society of England. They concern planning for Britain in some spheres of her economic life and activity. They are written by eminent men who thoroughly know their job. G. D. H. Cole writes on Plan for Living; Aneurin Bevan on Plan for Work; Jim Griffiths on Plan for the Key Industries; L. Easterbrook on Plan for the Land; Sir William Bevedridge on Freedom from Idleness; and Harold J. Laski on Choosing the Planners

The essays furnish much good information and make important suggestions. All those who are interested in planning for India will do well to read them The publishers deserve congratulations on bringing out an Indian Edition of the collection.

G. D. KARWAL

REPORT OF THE JAIPUR STATE POST-WAR RECONSTRUCTION COMMITTEE. Published by Secretary to the Government of Jaipur. Jaipur. 1945. Pp 74 plus 31. Price not given

The bitter experience of the War has roused world conscience for establishing a more satisfactory economic and social organisation in the post-war period. In India, the Bombay Plan, the People's Plan and the All-India Muslim League Planning Committee are signs of the time. It is very encouraging to note that some of the Indian States, like Jaipur, are also falling in line.

The report under review deals with the problems of post-war Reconstruction of the Jaipur State. Section A is preliminary and Section B discusses questions like post-war employment of demobilised soldiers and the Machinery for Economic Planning. The remaining Sections C, D, E and F are mainly the reports of the Sub-Committees for Agriculture, Industry, Health and Nutrition, and Education respectively as revised by the General Committee. There are also 10 appendices dealing with specific matters.

On the whole, the report is a well-reasoned document, covering important aspects of the social and economic life of the State. The proposals are of a practical nature and when put into practice would bring happiness to the people of Jaipur. The report, naturally, deals with the problems of Jaipur State, but its conclusions are of a wider interest and it may well serve as a basis for post-war Reconstruction in other parts of the country.

S. M. SHAFI

PEOPLE'S PLAN FOR ECONOMIC DEVELOPMENT OF INDIA, by B. N. Banerji, G. D. Parikh and V. M. Tarpunde. Published by Prof. B. N. Banerji, Post Box No. 580, Calcutta. 1944. Pp. 56. Price Re. 1.

The People's Plan represents the independent views of the Indian Federation of Labour for co-ordinated development of Post-War India.

The Plan covers a period of 10 years involving an expenditure of Rs. 15,000 crores. This total capital is to be distributed as follows—agriculture Rs. 2,950 crores, industry—Rs. 5,600 crores, communication—Rs. 1,500 crores, health—Rs. 760 crores, education—Rs. 1,040 crores, housing—Rs. 3,150 crores. The initial capital to be spent for the first three years of the plan is estimated to be Rs. 1,600 crores. With this initial investment, the plan is expected to be self-financing—that is finance for the rest of the plan will be available to the State out of this investment. The initial expenditure is therefore concentrated on items which will yield immediate returns. The sum to be spent on communications for example, begins only in the fourth year of the plan and on housing in the fifth year. Almost 66% of the expenditure on agriculture is to be concentrated during the first 5 years while 20% only on industries. Viewed from this aspect, the first 5 years of the plan may rightly be called the period of agricultural development while the second half the period of industrial development. Industrial development together with the provision of services such as housing, health and education will depend upon the extent to which a surplus is created in the economy by the basic industry of the country, namely agriculture.

The Plan therefore has a pronounced bias towards agriculture and in fact it hopes to increase agricultural output by 400%. The Indian peasant today not only produces a very low yield with his traditional methods of production but is deprived of a considerable proportion of his meagre produce for rent and exorbitant interest for the money-lender. This system of rural economy prevents both the development of industries by restricting the purchasing power of the people and depriving the peasant of the incentive to adopt modern and scientific methods of cultivation. The Plan therefore suggests for the mobilization of agriculture by nationalization of land and the abolition of usury. Modernised agriculture will expand the domestic market and pave the way for the sound growth of industries. This growth will relieve the excessive pressure of population on land and open up new avenues of employment thereby raising the standard of living of the people.

The Plan recommends the adoption of the suggestions of the Land Revenue Commission (1938) for the reformation of the existing system of land tenures, so that mechanization of agriculture, extension of irrigation, provision of adequate manures, improved seeds, improvements in the quality of livestock and the like will be easily made available for the development of agriculture. Collective farming is advocated for intensive cultivation. Uncultivated lands are to be brought under cultivation. Schemes of soil conservation are there to prevent soil determination. Moreover, the Plan suggests for the provision of 25,000 State farms equipped with modern mechanical implements and research institutes. These farms are to lease out modern implements to collective farms and to demonstrate improved and efficient methods of production to them. Agriculture, reorganised and developed on these bases will provide adequate food for the people, supply raw materials to industries and will be exported to import machinery and equipment.

Besides this, there is scope of industrial development by 600% together with the expansion of communications, in the Plan. The total route mileage of the railways will be increased by 50% and that of roads by 150%. The scheme provides for development of internal navigation and coastal shipping.

Coming to the question of distribution of commodities, the Plan emphasises the roll of the State. Distribution is to be ensured through the co-operative societies. It is said that collective farms in the rural areas and the State controlled industrial plants to the urban areas will function as wholesale co-operatives. Distribution through wholesale co-operatives is an essential corollary of the object of the Plan.

The capital of Rs. 15,000 crores required to finance the Plan will be made available from the following :—

Sterling balances	450	crores of	rupees.
Initial finance, Estate duty etc.	810	,,	,,
Income from nationalization of land in the first year of the Plan	90	,,	,,
Income from agriculture for re-investment during the period of the Plan ...	10,816	,,	,,
Income from industries for re-investment during the period of the Plan ...	2,834	,,	,,
TOTAL ...	15,000	,,	,,

The Plan calls from wide margin of State control though the roll of private initiative is not ignored. The system suggested will be suitable for development of India's economy because such a system appears to yield most of the advantages afforded by private initiative and profit incentive but reconciling them with collective interests and a collective outlook. The Plan deserves a wide circulation and careful consideration of the State planning for the future development of India.

(MISS) SOVONA SENGUPTA

PLANNING A NEW INDIA, by M. N. Roy. Published by Renaissance Publishers, Calcutta. 1944. Pp. 64. Price Re. 1.

The author here traces the root cause of our present maladies and suggests how they will be overcome in his 'New India'. Poverty is at the basis of all our economic ills and the real cause of it is not foreign rule but that the productivity of labour, which according to him is the source of all material values, did not grow during the last two hundred years. The solution is growth of modern industries and relieving the pressure on land. But under a capitalist economy goods are produced for profit. In the case of India the internal market is limited and our industries cannot expect that they can thrive on export trade. He, therefore, recommends that the capitalist economy should be replaced by another system of economy, which may not immediately be socialism, but a system where production is guided by the needs of the community. Under such a system industries will prosper since "human demand in India is almost unlimited." It is, therefore, essential to establish a government free of all control by vested interests. Such a government, he

says, can only be a People's Government and not a National Government, which means "a government of Indians who will be person a grata in the Birla House." He does not share the view that it is useless speculation to plan till the political problem has been solved because today British Imperialism is a mere ghost and freedom has already come to India. How we wish he was correct!

R. N. BHARGAVA

THE NEW WORLD ORDER, by Muhammad Ali. Published by the Ahmadiyya Anjuman Ishaat-i-Islam, Lahore. Pp. 148. Price Rs. 2 8 as.

The present world order is a sorry affair. It is characterised by misery, hatred, selfishness, exploitation and bloodshed. People are tired of it and wish to see established a new world order that will be free from these evils and give the world a stable, enduring civilisation. But how can that come about. The author of this book believes that it can be born if the two moral forces of *a living faith in God and the oneness of humanity* permeate the minds of men These two forces are to be found in the Muslim religion only The acceptance by the different nations, of the tenets of Islam therefore, can only supply the world with the desired new order

The author is a religious enthusiast. He suffers from a religion complex and lacks the historic, relativistic and realistic sense. Because the advent of Islam into Arabia and other neighbouring countries in the seventh century evolved order out of chaos and stabilised conditions on a higher plane, he thinks that its spread in the various countries in our days will eradicate the evils of the times. He forgets that there is a world of difference between the two periods. He also loses sight of the fact that Islam was not later on and is not even today, able to do away with hatred, bloodshed etc. even among its own followers. He would say to this that those awful things came in and are there not because of the message of Islam but because human nature is 'too prone' to them. He, therefore, wants 'a greater religious awakening and a truier faith in God' to take place. Well, if this is what is needed, why is it clamed that Islam alone will do the trick? The fundamental principles of all important religions are the same. They all lay emphasis on moral considerations and regard humanity as one before God. The tenets of any one of them throughout the world or every one of them in different countries if followed in the letter as well as the spirit will solve most if not all of the problems of mankind.

The book is very useful in so far as it gives the teachings of Islam on economics, sex relations, and the State, but its utility as furnishing a way out of the difficulties of the world is doubtful.

G. D. KARWAL

THE POST-WAR DEPRESSION AND THE WAY OUT, by B. R. Shenoy. Published by Kitabistan, Allahabad. 1944. Pp. 159. Price Rs. 3.

This book contains a clear analysis of the principal methods of financing a modern war and their repercussions on different sectors of national economy. In Chapters I and II, he closely follows the theory of capitalistic production as developed by Bohm-Bawerk and Hayek, which suggests and emphasises that the creation of net social savings is the essential condition of economic progress and warns us against the inevitable and disastrous dislocation and wastage which must follow inflationary expansion. In Chapters III, IV and V, he discusses seven different ways in which the State can control and operate the national economy so as to obtain the real resources necessary for the prosecution of war. In Chapters VI and VII, Post-war Boom and Depression, the author proceeds to state that, if war-time controls over investment and consumption are removed, the monetary savings of the war period would tend to generate a boom in capital goods and consumption goods industries, which, however, must soon collapse and be succeeded by a depression, because, on account of war-time depreciation and destruction there would not be enough available instrumental capital to absorb the enormous flow of finance (or monetary) capital, with the result that many of the expansion programmes could not be completed and many of the specific factors of production would be left high and dry. In the concluding chapter of the book, the Way Out, the author holds that the dislocation and wastage of post-war cyclical fluctuations, rendered inevitable by inflationary war finance, could only be avoided by (*a*) keeping up the bank rate to the natural rate of interest, or (*b*) a drastic capital levy so as to wipe out the paper wealth of the war period, or (*c*) a continuation of the war time controls over investment and consumption till the planned programme for the transition period is completed.

The author's analysis of the nature and consequence of inflationary expansion very closely follows the doctrine of neutral money as propounded by Hayek in his famous book "Prices and Production" and would appear to be too refined and too theoretical to be a useful guide in the formulation of practical policy to meet the complex and many-sided socio-economic problems thrown up by a modern war, problems which are essentially dynamic in their nature and which cannot be handled by the static theories of natural rate of interest and neutral money, those theories themselves being the result of attempts to resurrect the doctrine of laissez faire. So far as the implications of the various possible methods of war finance are concerned, they have been made familiar to the student of modern economics by the writings of Keynes, Pigou, Dalton and others.

Nevertheless, the author's exposition of the underlying phenomena is both lucid and adequate, and it has been enriched by a wealth of illustrative statistical data relating to the economy of the present war. It is a valuable book and it will go a long way in clarifying many of the important issues of the theory and policy of War Economy. And it deserves a wide circulation.

H. L. DEY

THE FUTURE OF THE RUPEE, by C. N. Vakil and J. J. Anjaria. Published by Popular Book Depot, Bombay (7). 1945. Pp. 39. Re. 1. 4 as.

The present world war, when it ends, will leave the monetary mechanisms of the various countries of the world out of gear and their cost-and-price structures in disequilibrium. India would be one such country. It is time, therefore, that India had pondered over the problem of the future of her currency unit and kept her plans of action ready for the immediate post-war period. The small volume under review by two of the eminent economists of the country has, therefore, not come out a moment too soon.

An important feature of this publication is that, unlike the partisan views from certain sections favouring either no-change in the value of the Rupee or a higher or a lower Rupee, it sifts and analyses all relevant material with great deal of care and caution and thereby certainly helps an intelligent understanding of the problem It has, therefore, great educative value and for this the authors deserve rich commendation.

The thesis that the authors develop in the publication is that the stability of the internal and external values of a currency unit is necessary, but in India the emphasis of the gold exchange standard which she came to develop was 'on the stability of the exchange value of the rupee in terms of the sterling, irrespective of its effect on the internal price level', and the situation has not improved even with the establishment of the Reserve Bank. The authors then consider the immediate post-war problems *vis-a-vis* the future of the rupee to conclude that the requirements of our post-war economic planning and international trade make it obvious 'that we cannot maintain the present high level of prices and shall be forced to adopt a lower level' (p. 22) There are many imponderables in the matter of gauging the effect of external influences on the future of the rupee and the authors naturally opine that 'there can be no question for us at this stage of deciding what the rupee-sterling-dollar parity should be' (p. 25), and that 'he would be a bold man, indeed, who ventured to lay down a solution dogmatically' (p. 25). Will the 'bold' men take note of it ? Finally, the authors proceed to formulate in the general terms,....the main principles according to which our currency-and-exchange policy ought to be steered in the immediate post-war years' (p. 31) and these Guiding Principles are :—

1. 'The rupee should be de-linked from sterling, for the time being, at any rate, and the Reserve Bank should determine its external value from time to time in view of the requirements of domestic policy and the actual conditions in the international money markets' (p. 31).

2. In settling bilaterally the question of the repayment of our sterling balances 'India should not be expected to maintain an unduly high exchange ratio in order just that she may have negative balances to wipe out her sterling accumulations.' (p. 32).

3. 'The Reserve Bank must form a tentative idea of the optimum price level to be attained in this country as soon as possible after the war.' (p. 33).

4. 'We would have to watch carefully how the major countries of the world shape their currency-and-exchange policies in the post-war period.' (p. 33).

5. In the face of the possibility of the development of a depression psychology after the war in the country and also of the fear of the imports of such goods as may destroy our nascent industries and create large scale un-

employment 'a rigid exchange... ..would deprive us of a valuable corrective weapon.' (p. 34).

In fact, these Guiding Principles would keep the monetary authorities of India from their slumber, or masterly inactivity into which they had to fall for a few years after 1920. The case for an autonomous rupee has been before the country ever since the Secretary of State for India switched us off from the gold exchange standard to the Sterling exchange standard in September 1931. It was strengthened by her gold exports which inevitably followed, and when during the present war one reviews the expenditure by H M. G. in India, its financing by the Government of India and their unavoidable consequences—inflation at home and sterling accumulations abroad—one can hardly help feeling that the rupee should never have been linked to sterling. But the authors' case for delinking of the rupee is based on still more firm and substantial grounds: 'We have specially emphasised the importance of internal economic conditions in this country which should determine our monetary policy. Unless we keep this point of view in mind we are likely to be affected adversely by external forces to which the internal arrangements may have to adjust from time to time. Instead, it should be possible for us to adjust our external relations to our own internal economic condition' (pages 34-35). This argument for a 'free' rupee is, no doubt, not new, and can be rebutted, as has been done in the past, by saying that a 'free' currency would lead to competitive currency depreciation, but in the light of the environments in which India hopes to find herself in the post-war years this argument assumes newer importance and important significance and cannot be so easily refuted. For, as say the authors, 'Unless the monetary policy is controlled in the interests of a national economic plan, we may find that the plan itself may suffer in its execution,' (p. 35), and 'the advantages, during this (transitional) period, of an autonomous rupee regulated internally and externally on a balance of all the relevant considerations........ far outweigh any disadvantages on account of a possible adoption of the same policy by other countries—if only we know how to play the game and are allowed to play it. (Pp. 38-39). The case for a 'free' rupee could not have been better placed. Only by making the rupee autonomous can we arrive at correct valuation of it before we join, if we do, the International Monetary Fund. The warning given by the authors should not go unheeded particularly by those who believe that the demand for a 'free' rupee is on political grounds. The authors say, 'If either because of political or other external considerations, we fail to obtain in practice the correct valuation for the rupee both externally and internally, we should once again be prepared for a frustration of our cherished desires'. It should be noted that on economic grounds alone the case for a 'free' rupee is as strong as on any other, probably more.

The other guiding principles given by the authors are equally noteworthy, and deserve unprejudiced consideration by all those who matter. It must be said that those who are wedded to the continuance of the sterling yoke on the rupee and to a rigid exchange in the immediate post-war period do not know what they ought to. And, to them a close study of the volume under review would be specially beneficial.

The whole study in the volume is factual, realistic, sound and lucid. It is a significant and valuable contribution to the future monetary problem of India. We feel sure that it will prove greatly helpful to all who take interest in the future of the rupee. The authors deserve to be congratulated on having admirably succeeded in presenting a mine of information in a handy publication. It is sure to revolutionise our economic thought.

The printing is clear and attractive and get-up tidy.

S. C. CHAUDHRI

INDIA'S STERLING POSITION AND THE WAR, by Bimalendu Dhar. Published by Cooperative Book Depot, Calcutta. 1944. Pp. 165. Price Rs. 3.

The problem of India's sterling accumulations has now come to acquire an international significance in spite of the fact that the exit that it had to make at the Bretton Woods Conference has left it as one to be settled bilaterally between U. K. and India. In recent years there have developed certain fictions and fallacies round these accumulations both in India and U. K. The volume of opinion regarding their repayment is as divergent as it is growing, in both the countries. This publication, which purports to lay down 'the broad principles that underlie the question of the transfer of our sterling balances to India' is, therefore, a timely and wholesome addition to the existing literature on the problem, and is, as such, welcome.

The book is divided into seven chapters and begins with an enumeration of facts which make it 'almost incumbent upon this country to keep in London large ready resources in sterling' and of the sources from which we procure this sterling, and shows why England has now to remit to India annually considerable sums in sterling. It next considers, clearly and lucidly, the complicated problem of the repatriation of sterling loans in several of its important aspects and examines the criticism that the Indian Legislative Assembly made in November, 1941 of the Government's scheme of compulsory repatriation. It later takes the reader to repatriation by Empire countries but due to paucity of data the author could not give it fuller treatment. The chapter on the *future of Indias sterling assets* is very ably written, wherein the author does not agree with the official opinion that our sterling balances should be designated as debt and examines the difficulties in the way of their transfer to India in the war and the post-war periods as also the proposals made by the Government of India for utilising a part of the balances. The author has taken great pains in analysing others' opinions on the utilisation of sterling assets; one wishes, however, to know in concrete terms how he would like the problem to be solved.

The book deals with a complex problem in an understandable style and, we hope, would help an intelligent study of it. It is descriptive, analytical and informative. We hope it will be read with the interest it deserves.

S. C. CHAUDHRI

INDUSTRIAL CREDIT IN WAR AND POST-WAR ECONOMY, by Saroj Kumar Basu. Published by The Book Exchange, Calcutta. 1944. Pp. 49. Price Re. 1.

In this monograph Dr. Basu critically analyses problems relating to the financing of industries during the War and Post-War periods. Mobilization of a country's available resources is indispensible for the successful operation of a total war and as such every possible step should be taken to see that finance does not prove a bottleneck in its industrial war effort. The switch over from a war-economy to a peace-economy is highly difficult, complex and delicate and the financing of this transition is, as the author warns, one of the major issues in a scheme of post-war reconstruction and so his emphasis on the role of credit in this adjustment.

Analysing the nature of war industries Dr. Basu's observation is that they do not attract private investors because private capital is hesitant to finance typical war industries having ever-increasing war demands. The normal machinery of the capital market thus breaks down. Even the long-term capital market is sometimes put into the cold storage. The author takes the example of England and India to prove this. Defence Regulations in England have banned all war issues of capital in excess of £10,000. In India also private investment is tightened by a new D. I. rule (No. 94).

Coming now to the question of the banking system Dr. Basu rightly recognises that long term financial requirement is outside the pale of Commercial banking. Even in the short period. working capital may be inadequate for the banks to accommodate with. Necessity, therefore, arises of the State to act as the banker for war purposes. The author has given a detailed account of how in England, U. S. A. and in Germany the State acts as a banker by supplying various types of emergency credit to carry on war industries.

But well-adjusted methods for the financing of war-time plant conversion and expansion, according to the author, are singularly lacking in India. Banks do not give special consideration to requests for credit from firms engaged in war work. Facilities granted by the Reserve Bank of India for the country's war effort are limited to such simple rediscounts as may be found even in ordinary times. Collateral securities demanded even to-day by the Reserve Bank of India stand in the way of expediting the war effort. Moreover, there is no corresponding arrangement between the Reserve Bank, the Scheduled Banks and the Supply Department to render financial help to war industries. In order that finance does not constitute a bottleneck to war industries, Dr. Basu aptly demands modification of the Reserve Bank's war-time credit policy. Dr. Basu then examines the role of the State. The part the State plays is, according to Dr. Basu, "extremely rudimentary" as it is confined to providing financial assistance only to ordnance factories and small industries executing war orders.

Dr. Basu then suggests in details the nature of a machinery suitable to maximise industrial war effort to have easy and swift flow of capital both for the short and long periods and to fight out the inflationary forces inherent in a war economy. The State in collaboration with the Central Bank is the proper machinery to shoulder this responsibility.

Dr. Basu discusses the post-war problems of reconversion of industry from a war-time to a peace-time basis, adjustment of industries to changed conditions, the taxation policy of the government and the incidental problems of labour, transport, power plants and raw materials.

In short the book represents a plan for controlling, regulating and extending the credit facilities in the country thereby establishing a sound and adequate base for a powerful economic drive.

Dr. Basu's book should be widely read for the balanced and impartial analysis of the methods of financing industries in India and elsewhere.

Mr. N. R. Sarkar has written an appropriate foreword to this short but "informative memorandum." The book is very well-printed.

(Miss) SOVONA SENGUPTA

A GUIDE TO PRACTICAL BANKING, by A. N. Khosla and B. V. Krishniah. Published by the Author, Post Box 239, Lahore. 1939. Pp. 227 Price Rs. 3.

The aim of this book, as Dr. Narayanaswany writes in his foreword, 'is to relieve the students appearing for practical banking examinations of the trouble of wading through a number of books and acts at the time of the examination.' As he further writes, 'The book is divided into three parts. The first two parts deal with practical banking and currency while the third part explains some of the salient principles of economics.' The utility of the book to the examinee, for whom it is mainly intended, is enhanced by the inclusion of appendices dealing with the Imperial Bank of India Act, the Reserve Bank of India Act, the Syllabuses of various examinations in Banking and the Question Papers. A chapter is devoted to Banking and Commercial Terms and Bank Book-keeping which makes the book useful for the man in business, particularly in the Banking sphere. The Bibliography given at the end would be found helpful by the more interested and advanced students of Banking.

One, however, wishes that the Chapter on Money Market could be expanded further so as to include a fuller discussion of the main features of Indian Money Market in particular. The Chapter dealing with Foreign Exchange too is rather sketchy and the authors would do well to enlarge it while revising the book for the next edition.

The book would also prove useful to the apprentices engaged in Banks as it is written in a very easy and lucid style and deals with practical banking.

R. G. SARIEN

POVERTY OR PLENTY, by M. N. Roy. Published by Renaissance Publishers, Calcutta. 1944. Pp. 156. Price Rs. 2. 8 as.

This is a collection of articles—a very long, rather tiresomely and perhaps needlessly long, introduction by Professor G. D. Parekh and eleven fair-sized papers by Mr. Roy, published in the weekly journal, Independent India, between the 1st October, 1942 and the 1st August, 1943. The articles cover a wide range of subjects, such as price control, democracy *vs.* capitalism, the absurdities, axis of Indian politics, brotherhood of big business, an economic fallacy, spectre of post-war slump, and planned economy. The Appendix contains two manifestos or memoranda on Distribution of Food and the use of normal channels of trade by the Government, and a number of statistical tables on note circulation, index numbers of wholesale prices and cost of living, scheduled banks and public debt.

In the article on the Problem of Price Control, the author gives a clear and precise analysis of the factors involved and successfully exposes the lack of grasp and of steadfast resolve which marked the price control policy of the Centre, and rightly points out that the major factor in the creation of scarcity of essential articles was speculative hoarding, which should have been rendered impossible through a more consistent and effective control of the channels of distribution from the very outset. In the second article on Democracy *vs.* Capitalism, the author draws our attention to a significant statement in the London Chamber of Commerce Report on Post-war Reconstruction, in which a forceful plea is advanced for a complete re-orientation of the traditional economic relationship between advanced and backward countries so as to establish a new

co-operative world order on the basis of equality of all nations, with a view to raising the standard of living of the backward nations to that of the wealthier ones. The author interprets that statement to be an admission of failure on the part of capitalism and warns us in India that capitalism, which is an admitted failure in the West, cannot be a success in this country. He suggests that the expansion of industry in India must be preceded by an appreciable increase in the purchasing power of the peasantry by leaving in their possession a greater share of the wealth produced by them, which will, of course, mean a considerable curtailment of the rights and privileges of the landed aristocracy—a theme which is further developed in the third article on "the Absurdities" In the next group of four articles, 'Axis of Indian Politics, Brotherhood of Big Business, An Economic Fallacy, and Spectre of Post-war Slump,' the author suggests that an inevitable alliance is growing up between British and Indian Businessmen who, by raising the bogeys of inflation and post-war slump, have opposed the expansion of currency and have sabotaged the expansion of war production on the lines of the Grady Mission Report and have persuaded the Government as to the necessity of preventing the spiral of inflation through the immobilization of the new incomes. Mr. Roy holds that the better course would have been to allow this money to filter down to the masses and then let it be used by them to expand the demand for consumption goods, the supply of which could be easily increased in India. This is, of course, a highly debatable matter. For. inflation has been admittedly carried far too far in this country, and whether it could be suitably canalized so as to increase the purchasing power of the masses and thus build up the foundations of a larger and more enduring economy in India in war-time conditions is extremely doubtful. It is also doubtful whether and how far the necessary machines and tools could be procured or produced for the expansion of consumption goods at the present time.

Then follow four articles on Planned Economy, in which the author proceeds to show that India cannot achieve that vast increase of production and fairer distribution of wealth, which are essential to raising the standard of living of the masses, without control of the means of production and of the channels of distribution. He is quite right in emphasising the lesson of normal as well as, and specially, war-time experience, that the operation of the motive of private profit prevents optimum production, creates artificial scarcity and increases inequality of incomes. He, therefore, makes out a strong case for creating the basis of a successful and vigorous planned economy by arranging to transfer the newly created vast purchasing power through higher agricultural prices and higher wages, using the sterling balances to build up socially desirable industries and reducing the burden of rent and other levies on the peasants.

Most of these articles are based on an objective analysis of significant factual data and they are indeed thought-provoking. It is, however, to be feared that their value will be heavily discounted by the fact that the author has unfortunately, but perhaps unavoidably from his point of view, imported into his arguments a good deal of obvious political bias. His repeated references, *e.g.*, to the London Chamber of Commerce Report on Post-war Reconstruction, in which leading English businessmen have repented of their past sins and make promise of good behaviour in future in relation to world economy and to backward countries, and his absolute reliance on these professions as the sure augury of a saner world economy in the future would seem to many to be too naive. Or, again, his insistence that Mahatma Gandhi and the Congress have been, are and will be the henchmen of Big Business is certain to be regarded by all impartial men as absolutely ridiculous and absurd,

because the whole emphasis of their past policy and declarations has been on a progressive socialisation and democratisation of economic life. Or, again, his oft-repeated belief that the evolution of world economy will automatically lead to the extinction of Imperialism and that there is bound to be a closer and more integral co-operation between British and Indian Big Business might appear to not a few persons to be too simple and categorical for the world of complex and contradictory forces in which we happen to live.

Nevertheless, we have to say that the articles under review are informative instructive and important and that they should be widely and carefully read.

H. L. DEY

INDIAN ECONOMY DURING THE WAR. by L. C Jain. Published by R. C. Jain, 86, Mozang Road, Lahore. Third (Revised) Edition. 1945. Pp. 150. Price Rs. 3 4 as.

The book under review is the third (review) edition of Dr. Jain's excellent study of the repercussions of the present war on the various sectors of the Indian economy and has been published barely eleven months since it first saw the light of the day—the first edition was published in March, 1944. This in itself is an eloquent testimony to the great merits of this clear, lucid and dependable survey. Dr. Jain is a master of his characteristic style of explaining even the most intricate economic phenomena in a most clear-headed and simple manner; and he is perhaps at his best in this already very popular book in which he has made a study of the dry statistics and facts as interesting as a novel and as vivid as a cinema film

The book has been divided into six chapters entitled (*i*) War and Indian Agriculture ; (*ii*) War and Indian Industries ; (*iii*) War and Indian Trade ; (*iv*) War and the Indian Money Market ; (*v*) War and Indian Finance : (*vi*) Indian Economy during the War. "The book has been revised so as to bring it uptodate and some changes have been made in almost every chapter." (Preface to Third Edition). Informative and useful appendices have been added on "The Proposed Banking Companies Act (?) of 1945" and "The United Nations Monetary and Financial Conference Held at Bretton Woods in 1944;" and there is a supplement issued separately on "The Indian Budget for 1945-46."

While discussing the Industrialists' Plan, Dr. Jain had posed some very pertinent questions in the first edition of this book though they were perhaps premature at that time since the problem of distribution and State control were postponed to the second part of the Plan. "For what is post-war economy of India to be planned ? For whom is post-war economy of India to be planned?" Such questions assume importance and gravity when they come not from a noisesome communist or a radical democrat but from an economist of the status of Dr. Jain. He had put forward the Nehru ideal of planning in terms of peasantry rather than for the upper groups before the Eight Industrialists and had declared with boldness and courage that "much of the dead weight of privilege which at present fills every nook and corner of India will have to be cleared away." (See p. 134 ff.) But all such observations have been omitted in the third edition. Is Dr. Jain satisfied that the second part of the Industrialists' Plan comes up to this ideal ? Dr. Jain is silent on the point. He

does not discuss it. But we must say that Dr. Jain spares the People's Plan and the Gandhian Plan as well of criticism.

We once again recommend this book strongly as a very clear, graphic and reliable account of the effects of war on the various limbs of the Indian economy.

A. N. A.

THE FUTURE OF INDIAN INDUSTRY AND OTHER ESSAYS. (Economics Department Bulletin No. 22). Published by the Economics Department, University of Allahabad, 1945. Pp. 58. Price Re. 1 8 as.

This Bulletin contains three essays that were read before the three associations of the Economics Department *viz.*, Economic Conversazione, Busy Bees and the under-graduates Economics Association. The first essay, 'The Future of Indian Industry' by Mr. Arun Kumar Ghosh, is an objective study of India's Industrial future. The author has made a brilliant analysis of growth of industries particularly as an impact of the war and has also indicated lines of future development. He has further pointed out the dangers that face them in the post-war era and also suggests remedies to overcome these. His main thesis, and rightly too, lies in a proper control and rationalization of our industries after the war. One may, however, not agree with the author in advocating a cartelization of industries.

.With reference to the establishment of aircraft industry at Bangalore, the author mentions the name of Sir Akbar Hydari as the Dewan of Mysore State. I believe, he perhaps, means Sir Mirza Ismail—now Prime Minister of Jaipur State—through whose unceasing efforts the industry was established there.

The author further discusses the role of cottage industries in our economy and also refers to some of the ill-organized industries. While referring to the latter, he rightly remarks in connection with the Drugs and Medicines industry that in this sphere, State interference seems as opportune as necessary for it is difficult to see how the petty and dishonest drug manufacturers, exploiting millions of illiterate masses can be brought under systematic control without Government ordinance. It needs no emphasis that the already poor health of Indians cannot any longer be staked at the mercy of a host of quack drugs and medicines manufacturers in the country.

Towards the end, the author briefly discusses 'Some important allied problems' such as those of Organization, Power, Finance and the immediate Future. While referring to the problems of Organisation he says, "that the social costs of monopoly are less than the social costs of free competition." This is so theoretically as he also admits. But his conclusions with regard to Indian Railways that 'The ownership of Railway Transport by the state has, without doubt, brought immense benefits to the Indian tax-peyer" is highly doubtful and open to question. It does not mean that the principles of State control and ownership should not be extended to our 'basic' industries and Public Utility Services. But so far as Indian Railways are concerned one hesitates to agree with the author inasmuch as it has 'without doubt, brought immense benefits to the Indian tax-payer.' The recent debate on the Railway Budget has proved beyond doubt that so far the Indian tax-payer does not

stand to benefit anything from state control and ownership of our railway transport.

While referring to Problems of Power Mr. Ghosh rightly emphasises the increasingly important role that development of Hydro-electricity should play in the industrialization of the country in years to come. But this energy should be produced as cheaply as possible. The author is correct when he says that "selling costs mount up due to heavy costs of transmission, and sometimes even due to uneconomic generating units.' This was emphasised by Dr. Saha also many times. Coming to the 'Financial outlook' the author very aptly remarks that 'the recent development of our financial system has proceeded on a very unsound basis. The present growth is in reality an illusion; the number of new banks opening up is no real indication of financial strength." He is also correct in saying 'that bank failure is a far more terrible thing to an economy than the collapse of an isolated industrial concern.'

In the next essay Mr. Capoor discusses the "Principles and Problems of Future Capital Accumulation." The paper is divided into two parts—the first dealing with the theoretical aspect and the second with the problems of future capital accumulation with reference to India. He seems to have made out a strong case for the existence of capitalism. In his enthusiasm to plead capitalists' case he writes 'that the present system of profit distribution represents a greater gain for the worker than what would accrue if the profits were distributed among the workers.' Whether it is so is very doubtful indeed. After having established the case for capitalism he proceeds to suggest a compromise between private capitalism and state capitalism. He concludes his theoretical discussion by emphasizing four points namely, "the necessity of capital accumulation, the criterion for the state turning a capitalist, the policy that should be followed in regard to private capital accumulation and the type of industrial organization which favours capital accumulation most."

Turning to actual problems in India Mr. Capoor emphasizes the urgency of capital accumulation in view of the fact that 'industrialization has started very late in India." But his conclusion with regard to distribution, namely, 'that we must pay more attention to production and less to distribution' is definitely unwarranted. He even urges 'the accumulation of capital in India, even at the expense of the importance of equitable distribution. It is true that we need more and more production and as such must emphasize it. But he must not forget that in India the problem of equitable distribution is equally, if not more, important and to minimize it would be very unfair in the interests of our teeming millions who are not even able to get a square meal a day. He then discusses the sources of finance (block capital and working capital) for the state and private enterprises. His remarks regarding the utilization of sterling balances as a source of finance for the state are very pertinent. He is right when he says in this connection that 'Unfortunately our fears in respect of our starting balances may prove true and we may not be permitted to utilize them as we think best and may be given consumer's goods in exchange for them." He concludes his paper with a strong case for the nationalization of banks 'to help in the accumulation of Working capital and to prevent the occurrences of business depressions."

The third and the last essay of the Bulletin is by (Miss) Usha Kunzru wherein she clearly discusses whether land Revenue in India is a Tax or a Rent. She is perhaps correct in saying 'that no practical policy seems to depend upon whether land revenue is a tax or a rent.' She, however, decides the controversy in favour of tax.

R. G. SARIEN

TRADE OF INDIA, by S. A. Palekar. Published by the author, R. A. Podar College of Commerce & Economics, Bombay, 1943, Pp. 350. Price Rs. 6 8 as.

There are few books on Indian Trade and therefore the present volume is a welcome addition to the existing literature on the subject. It is a comprehensive review of the different aspects of our trade. Beginning with a brief history of India's trade development, it gives an account of the intermediaries of Indian Trade, its characteristics, finance, chief exports and imports, technique of trade, trade policy, trade agreements, directions of trade and recent development of Indian trade. The author has attempted to discuss practically everything important connected with Indian trade. Some of the Chapters, particularly on the Intermediaries. Finance and Technique of Trade are well written and are useful to the students of commerce. But, on the whole, the treatment is very superficial, *e.g.* the theories of Trade Cycle hardly cover 2 pages of the book although in these two pages the author has referred practically to every leading economlst who has said anything on the subject. Again the Characteristics of the Home Trade of India have not occupied more than 20 lines of the book. Another serious defect is that the book is full of mistakes of spelling, grammar and construction. Uncommon words like anomaly, colossal, entrepreneur, have been mis-spelt everywhere. We invite the attention of the author to pages 3, 5, 12, 17, 29, 30, 35, 36, 70, etc. If the book is thoroughly revised it should prove a useful book to the students and teachers of Indian trade.

K. L. G.

FROM THE FARMER TO THE CONSUMER: A STUDY OF PRICE SPREADS, by M. C. Munshi, assisted by Bishan Sinha Published by the Research Department of the Federation of Indian Chambers of Commerce and Industry, New Delhi. 1945. Pp. 43. Price Rs. 2.

This, the first publication of the Research Department of the F.I.C.C. & I., which was started only in 1943, seeks to study the share in the price paid by the consumer of agricultural produce going to the cultivator himself and the various middlemen. This is an enquiry in a very important field of marketing and there is need of considerable research work in this direction.

The author of this booklet takes the relevant statistics from the fifteen marketing reports published by the Marketing Adviser; and he himself admits that "under ideal conditions these results should have been obtained on the basis of field inquiries as the sample method which would incidentally have provided a check on the figures given in the reports of the Marketing Adviser. Such an inquiry, however, under unofficial auspices is wellnigh impossible." He reduces this statistical material "to some uniformity" which he explains at relevant places. The fourteen statistical tables given by him (Pp. 34-35) are either taken from or based on the marketing reports mentioned above. About 32 pages of this pamphlet, which are devoted to this purpose and which form the most important part of this work, represent not any original research but simply the presentation of the material already collected and presented, in a convenient and consolidated shape. Table I, given on page 34, which shows the price spread of different commodities from producer to consumer in India, gives relevant information at a glance and is useful.

In about four pages he gives comparative information regarding U. S. A. and U. K. and then compares this with conditions in India.

In 3 or 4 pages he gives the conclusions of his study without himself arriving at any final conclusion ! He does not seek to justify the middlemen. He admits that the marketing apparatus in this country is inefficient and that "the farmer is an unwilling victim to not a few unconscionable exactions." But he says he has "endeavoured to put the problem in its proper setting—to show that in India marketing of agricultural produce is inextricably bound up with the system of rural finance and the middlemen perform other functions too besides 'distributing' farm produce." Could there be any doubt or difference of opinion about it ? There is hardly anybody in this or any other country who denies that in the existing conditions marketing middlemen perform a necessary role. The Royal Commission on Agriculture, the relevant quotations from which he himself gives, very clearly brings out this point. But the real questions which emerge are : (*i*) How can we bring about efficiency and economy in market distribution as it exists today ? (*ii*) Can there be a better substitute for market middlemen and which ? (*iii*) Is it practicable to replace the marketing middlemen in the existing set-up and if so, to what extent ? To none of these questions even scant attention has been paid by the author and he thus bypasses the real issues involved in the problem that he sets before himself.

There are too many quotations. Even the statement of most commonplace matter is at places given within quotation marks. Quotations are given in plenty in foot-notes from a number of books on marketing, which do not appear to directly contribute to the relevant arguments but are only perhaps meant to give a pedantic appearance to what is written.

But still the book performs a useful function. It makes a study of an important branch of Indian Economics and focusses attention on the statistical side of a problem which is often made an apple of discord by those who do not care to use the available statistics. It presents useful data in a convenient and collected form. It is sure to stimulate study and research in the subject of distribution cost even if it does not itself offer a solution of the important and intricate problem it has set before itself. We, therefore, recommend it to the attention of our readers and hope it will find many readers.

A. N. AGARWALA

OUR ECONOMIC CONDITION, by Baljit Singh. Published by Murari Book Depot, Hospital Road, Agra. 1944. Pp. 159. Price Rs. 4.

This is a book which presents largely in a descriptive and statistical form, data regarding Indian Economic life. In about 32 chapters under the headings Economic Resources, Occupations and Incomes, Industry and Agriculture, Trade and Transport, Currency and Prices and Finance and Taxation copious statistics are given and each chapter contains a running commentary on the data. The aim of the book is stated to be "to present to the intelligent man the economic realism (*sic*) in a clear perspective so that he may arrive at his own conclusions." Notwithstanding this the commentary provided in the book contains numerous "conclusions" incorporated presumably by the Editor. In places there are also recommendations.

Still the chief point about the book is the wealth of statistical data given in each chapter which helps in imparting a more concrete quantitative sense in the reading of Indian Economics and also serves as a simple reference book to students in the degree classes, journalists etc. As an introductory study of Indian Economics the book will be found useful.

P. S. NARAYAN PRASAD

OUR ECONOMIC RESOURCES, by R. D. Tewari. Published by New Book Co., Bombay. 1944. Pp. 137. Price Rs. 7 8 as.

A good deal of useful literature is being published on economic planning of India these days, and the present booklet is an attempt in the same direction. The author has divided his study into five chapters which are as follows :

I. Our Economic Problem.

II. Nature of Economic Resources.

III. Technique of Production.

IV. Technique of Utilisation.

V. Future of Economic Resources.

In the first chapter the author has discussed the problem of food, clothing, housing, leisure, social welfare, caste system and joint family, etc and has come to the conclusion that "the problem is to increase the purchasing power of the Indian masses so as to enable them to live a fuller and richer life." Nobody can disagree with this view. In the next three chapters he has given, in outline, the geographical conditions as well as the present economic position of the country. In the last chapter he has made a number of useful suggestions regarding agricultural and industrial reconstruction of India.

Except for a certain amount of repetition of ideas and constant reference to his earlier publications on 'Indian Agriculture' and Modern Commercial Policy, the book gives a bird's eye-view of the economic resources of the country. One may not agree with the author here and there. For example on page 103 he advocates mechanisation of Agriculture. He says, "Further agricultural production will have to be mechanised to enable the Indian Agriculturist to produce and sell at competitive cost." On our part we feel that mechanisation of agriculture on the Russian or American model, is neither feasible nor desirable at present in this country. We cannot solve our population problem by large scale mechanisation. Our cultivators certainly need improved tools and implements, better seeds, irrigation facilities and above all economic and compact holdings ; but they do not need large tractors and other heavy machinery at present. Mechanisation may be tried on newly reclaimed wasteland but not on the land already under cultivation.

We commend the book as a useful reading. But we feel that it has been priced too high.

K. L. GOVIL

THE ANNALS OF THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE. May Number of 1944. (India Speaking).

It is a special number of the Annals on Indian political, social and economic problems. The writers are one and all, acknowleged authorities on the subjects on which they have written in this number, and they are all Indians of learning and repute. Therefore the title given to this number, *viz.*, '*India Speaking*' is perfectly correct because in its pages one finds leaders of national aspirations speaking. It gives a fair picture of the Indian problems as seen by her people and not by her Government. The country is grateful to the Journal for presenting the Indian case in the right perspective to the readers of the Annals.

K L. GOVIL

THE FUNCTION OF STATE RAILWAYS IN NATIONAL ECONOMY, by T. V. Ramanujam. Published by the Author, Union Christian College, Alwaye. 1944. Pp. 183. Price Rs. 4.

Mr. Ramanujam's book on the Function of State Railways in Indian National Economy is a welcome addition to the growing volume of literature on Indian Transport. The book has five chapters dealing with various important topics. The first chapter deals with earlier state policy towards railways and its results while the second chapter discusses the changes in the conception of state policy in recent years and their results. Chapter III entitled "the Theory of Fair Return as Applied to State Railways". Chapter IV called "the Taxation of Railways" and the last chapter discussing the revolution that the internal combustion engine creates in transport problems and making a case for increasing need of state intervention contains much that is interesting and useful.

The author has made a comparative study of the growth of the railway systems in India and in other countries and has made many useful suggestions of his own in dealing with the subject. He has also dealt with other problems in a very interesting manner. His last chapter deals with the problems of Road-rail co-ordination and the attempts of the British State to solve these problems. Probably the real co-ordination between the different forms of transport can only be achieved by the national ownership of all forms of transport which is hinted at in one of the sentences in the book. In any case, the author is to be congratulated on the production of an interesting volume in Indian Transport.

M. K. G.

LABOUR BULLETIN, VOL. II. NO. 3. NEW SERIES (JULY-SEPTEMBER 1944). Published by Labour Department, U. P. Cawnpore. Pp. 51. Price 4 as.

The bulletin begins by saying that the labour situation during the quarter ending September 30, 1944 was on the whole satisfactory. There were 46 strikes during the past year. 46,812 workers were involved and 115,015 man-days were lost. In the month of May there were 10 strikes seven of which were in Cawnpore. The strikes were of short duration ranging from a day to nine days. Textile mills were mostly affected by these strikes. Twenty-one strikes centred round the demand for dear food allowance and higher wages. 41·3 per cent of the strikes were unsuccessful.

Cost of living index number showed an upward tend during the first two months of the quarter under consideration but thereafter showed a decline again.

The bulletin contains Important Labour Notes and a long list of Standing Orders for Operatives under the heading The Employers' Association of Northern India. (This heading, by the way, contains a spelling mistake). Names of new factories registered during the quarter are given. The list begins with Ratan Oil Mills and ends with Rations Oil Mills. Then follows a table giving information about the Trade Unions registered during the quarter under review.

Under the Heading Reports and Enquiries, we have a note on the Working of the Payment of Wages Act (1936) in the United Provinces for the year 1943. Of the 804 factories to which the Act applies, we are told, only 770 furnished the information in time. As compared to 1939 the wages rose by 234.7 per cent in 1943. The average wages are highest in the textiles and lowest in Gins and presses. The bulletin ends with a number of statistical tables, and a graph showing the cost of living index numbers for mill workers in Cawnpore.

The bulletin is full of information and should prove of interest to students of the labour problem.

J. K. MEHTA

AN INTRODUCTION TO LABOUR WELFARE, by H. P. Oza and V. P. Kotdawala. Published by Sandesh Prakashan Mandir, Sarangpur, Ahmedabad, 1944. Pp. 138. Price Rs. 6 8 as.

The authors of this work use the term "Labour Welfare" in a broad sense and discuss to what extent labour welfare has been prompted by (*i*) State, (*ii*) labourers themselves and (*iii*) employers, in the three parts in which this book has been divided. each occupying 55 pages, 43 pages and 44 pages respectively. In discussing the State in relation to labour welfare, the authors discuss briefly the different labour laws passed in this country: and urge the State to pass a debt legislation, provide for primary and technical education, housing, sanitation, etc. There are two brief chapters on social security and sickness insurance which appear to be shallow and amateurish. The authors call maternity benefit and workmen's compensation Acts, social insurance measures, which is quite incorrect since none of these involves an element of insurance, much less of social insurance. The table showing summary of

maternity benefit Acts, on page 29, is incomplete and even wrong at places. The years in which the Acts were passed in Bengal and Assam have not been mentioned in the column assigned to the purpose, whereas the details about Punjab are absent. The qualifying period prescribed by the Madras Maternity Benefit Act has been stated to be 9 months whereas it is 8 months within a period of one year. The authors do not exhibit any originality or even thoroughness in collecting, handling and presenting the material. One is left with the impression that they are not quite familiar with the literature available on the subject and with the importance of the various provisions in different Acts.

Part II of the book entitled "Labourers and Labour Welfare" is a discussion of trade unions only, which has been conducted from the angle of their role as a striking weapon ; but it appears that the labour welfare as it can be promoted by trade unions transcends this narrow limitation. Part III of the book discusses the role of employers in the promotion of labour welfare where the authors lay down their own practical experience in this field. This is perhaps the best portion of the book, though here again the reader does not escape the feeling of shabbiness and lack of thoroughness of the discussions.

But the authors have dealt with the material at their command very systematically, and we believe that the labour welfare officers and students of labour economics will benefit by reading this book. As an introduction to the study of labour welfare, which is how the book has been styled, this book is on the whole a useful publication, though we would like to advise the authors to thoroughly revise and considerably enlarge this work in its second edition.

The authors have elaborated their proposal "to accept for industrial labour the principle of employment on the family basis and to facilitate the workers to maintain a dynamic intercourse with their rural homes", to which they give a hint in the work mentioned above on page 120, in a separate booklet entitled "*Family Employment*" (Publishers same ; Pp. 38 ; price 12 as.)

A. N. AGARWALA

THE AGRARIAN PROBLEMS FROM THE BALTIC TO THE AEGEAN. Published by The Royal Institute of International affairs, 1 East 54th Street, New York 22, 1944. Pp. 96. Price 3sh. net

As the title of the book indicates this publication deals with the agrarian problems of the central and the south-eastern European countrties. The constructive part of the work consists in the Peasant Programme which was drawn up and signed by the representatives in England of seven countries of central and south-eastern Europe.

When one goes through the pages of this book one is struck by the amazing similarity between the problems facing the agriculturists in Europe and those facing the farmers in our country. Excessive pressure on land, poverty, indebtedness small and scattered holdings, ill health, high death rate. and heavy conventional expenditure are some of features that are common to both the west and the east.

Until the last war the peasants in central and south eastern Europe lived under a feudal system mainly. But soon after the war they formed Peasant

Parties and compelled their governments to introduce agrarian reforms. The main feature of these reforms was to break up the large estates and hand them over to the small peasants. This improved the condition of farmers in most countries. Yet in Hungary the conditions remained bad and some 45 per cent of the land continued to consist of large estates. Consolidation was also effected but the process was slow and in many cases the peasants also agreed to it very reluctantly.

When these countries were over-run by Germany during the present war many representatives of the Peasant Parties and experts on agrarian questions came over to Great Britain. They met together and discussed their common problems and the Peasant Programme contained in this book is the result of their work.

The people to which the programme applies are very poor. Infant mortality is as high as 140 per thousand births. Undernutrition and malnutrition cause susceptibility to various diseases. The expectation of life is low. The cause of their poverty has been mentioned to be dense population with shortage of capital. One of the things required for improvement is the change-over from grain production to farming for higher nutrition. But that necessitates capital. Further, high nutrition agriculture cannot solve the problem unless the growth of population is checked. That requires migration of rural population to towns. Thus their prosperity depends on the development of manufacturing and mining industries.

Co-operation has been introduced in these countries. But it developes slowly and unequally. Peasants have to be sufficiently educated to be able to take full advantage of co-operation. "The education must be not only technical but moral: the kind of training that teaches a man to play the game; to pull his weight; to market only produce of the proper standard and never to attempt dishonest dealings."

The Peasant Programme embraces the following recommendations. Peasant ownership, security of ownership, consolidation of holdings, co-operation, provision of credit and insurance, stability of prices, scientific advice aimed at introduction of varied crops, drainage, irrigation, soil improvement, provision of technical equipment, better seeds and breeding of livestock, agricultural education, housing, sanitation and recreation, industrialisatian, and transportation, particularly the development of roads.

There is much scope for industrialisation in these countries. Under the heading Problems of Industrialisation, we find this concluding remark "The great problem of the area to-day, that of over-population, can be turned into its greatest wealth. At a time when the declining birth-rate in many industrialised European countries gives rise to justified anxiety, south-eastern Europe need not live in want because of its surplus man-power. If after the present war there is found, in the area itself as well as in the rest of the world enough political and economic courage, the outstanding problems can be solved."

The book is illuminating and students of Indian economy should find it very useful.

J. K. MEHTA

THE HISTORY OF RUBBER REGULATION, 1934-1943, by Sir Andrew Mc-Fadyean. Published by George Allen and Unwin, Ltd., London, W. C. I. 1944. Pp. 23. Price 10s. 6d.

The literature on rubber industry and regulation is very inadequate and the I. R. R C. has done a real service to those interested in this subject by publishing this interesting and informative book. Strictly speaking, the his tory presented in this work is not the history of the rubber regulation but of the International Rubber Regulation Committee. However, this work gives a mass of important facts and a large volume of very useful and revealing statistics. Chapter I gives in brief important facts about rubber and traces the history of the rubber industry in the world. The consumption of rubber and the world supply and demand position have been clearly and lucidly presented. Chapter II discusses the earlier rubber control schemes. Prior to the International Rubber Regulation Agreement, several control schemes were agreed upon, both national and international, some of which were never put into practice. The most important of them was the Stevenson Scheme which remained in force from November 1922 to November 1928. It was at one time hotly debated whether the Stevenson Scheme has been on the whole useful or harmful to Britain; and it is interesting to note that in the opinion of the I. R. R. C. "it gave over the whole pariod of six years a profitable price to producers (sometimes far too profitable) but it failed completely to give price stability". (p. 35). It also deeply antagonised American opinion. Chapter III has been devoted to a very lucid and thorough discussion the negotiations leading up to the formulation of the International Rubber Regulation Agreement of 1934; while the principal provisions of the regulation and their application are clearly and lucidly presented in Chapter IV, which is exceedingly important and useful. Chapter V, dealing with the "Planting of Rubber." is an able discussion of the subject and is as interesting as clear. Chapters VI and VII discuss "Research and Statistics" and "Stocks of Rubber" respectively and according to the editor they "contain material which could not well be omitted from this work, but they might be regarded as an interruption in the narrative by the general reader." The working of Regulation itself has been studied in four different chapters: (*i*) From 1934 to 1935 in Chapter VIII; (*ii*) from 1936 to 1938 in Chapter IX; from January 1939 to May 1940 in Chapter X; and from May 1940 to December 194 in Chapter XI. This is the main part of the book and has been very well written. Evidently, this publication is a remarkable and valuable contribution to the literature on rubber and makes available many interesting facts and data at one convenient place for the first time. It is sure to be of use and interest to those interested in the rubber industry and commodity control agreements.

A. N. A.

ZONAL DIVISIONS OF INDIA, by K. M. Munshi. Published by Vora & Co. Publishers, Ltd., Bombay. 1945. Pp. 16. Price 8as.

Mr. M. K. Munshi's book on Zonal Divisions of India presents a very correct analysis of the different view points regarding zonal divisions of India and the consequent dangers that lie ahead in case such a division takes place The book clearly indicates why the Muslims are so much in favour of zonal

division of India and why the Hindus, particularly those of the Punjab and Bengal are very much against such a division. If zonal division has to be accepted at all, Rajaji's formula, of course, is the fairest. But is there really a need for such a desperate remedy? Can't the more reasonable sections of both the major communities inhabiting India put their heads together and evolve a scheme to safeguard their cultural, economic and political rights? One need not despair altogether as unity is bound to come about from the disunity that seems to be rampant all round at the present moment and Indian unity may be a glorious achievement and a great contribution to World peace.

M. K. G.

CONSTITUTION OF INDIA, by M. N. Roy. Published by the Radical Democratic Party, P. B. 580, Calcutta, 1944. Pp. 46. Price Re. 1.

Just now, when it seems that at no distant future the responsibilities of governing the country, must devolve upon the people, it is proper that Mr. Roy's Draft Constitution for India should focus our attention on the outlines of our future constitution. But to many it will appear wishful thinking when he expects that if all "the Indian political parties endorse this constitution, the British Parliament will have no option" but to liquidate its powers by passing a Bill of Succession to which this Constitution will be appended.

Mr. Roy visualises a Federal State, composed of a Federal Assembly, a Council of State and a Supreme People's Council, whose Chief Executive will be the Governor-General of India, elected by the entire electorate. Any one who has read the recent Gandhi Jinnah talks will find it difficult to concede his claim that the Muslim League point of view has been fully met by allowing the Provinces, which will be reconstituted on a cultural and linguistic basis, to remain outside the Union, if they so desire. The solution of the Indian states is their incoporation with the neighbouring provinces because he asserts that in a free India there will be no place for a feudatory Princely Order, which has outlived its usefulness. It is high time, therefore, that the princes, in their own interests, agreed to a revolution in spite of their treaty rights and he suggests that some monetary allowance may be fixed for them in order to enable them to live with dignity.

The Provinces will be fully autonomous and the highest authority will be vested in the Provincial People's Council composed of the Governor and the Deputies of the people. The constitution is fully democratic since the sovereign right of controlling the entire state machinery is vested exclusively in the local People's Committees, who will also perform the functions of local self-government in their respective jurisdictions.

Mr. Roy is extremely dogmatic when he says that there is really no reason for the other Indian parties (besides the Radical Democratic Party) not to endorse this constitution, if they stand for the freedom of the Indian people.

R. N. BHARGAVA

INDIAN CRISIS—by J. S. Hoyland. Published by George Allen & Unwin, Ltd., London, 1943. Pp. 195. Price 6sh.

This book presents a picture of the present Indian situation and its background The picture is a fairly correct one The author lived for over fifteen years in India as an educationist and social and religious worker. He studied the situation in a rational and sympathetic way. He came face to face with the problems of poverty, famine and disease not only in the towns but also in the country as well as contacted the leaders of public opinion. He is anxious to see our problems solved in a satisfactory way and as speedily as possible.

The picture he depicts is a gloomy one. But everywhere rays of light are beginning to illumine it. In the rural as well as the urban areas, in the social, the religious, the economic and the political fields signs of a welcome change are to be seen for which India's own sons more than any other agency are responsible.

The British Raj, he says, has conferred on India, no doubt, the blessings of peace, developed communications and an educational system which though "inadequate and misconceived" has, however, awaked "national consciousness and national aspirations." But at the same time, observes he, there are to be met with "increasing poverty, demoralisation (as shown by the growth of child-marriage) the flowing of vast masses of wealth from India to England, and (last but not least) the necessity of using odious forms of violence in order to keep the system running" P. 134.

The suggestions he makes for meeting the situation are :—mass-education, constitutional advancement, democracy based not on communal representation but on multi-member constituencies, with reservation of seats to secure the representation of minorities, federalism with a wide measure of devolution to the Provinces and the ending of Imperialism.

The books affords a very interesting reading.

G. D. K.

A SCHEME FOR CO-OPERATIVE EFFORT FOR DEVELOPMENT OF AGRICULTURE, by Nizamuddin Hyder. Published by the Author, P. O. Kakori, Distt. Lucknow. 1944. Pp. 11. Price 8as.

The author has already written a number of pamphlets on Rural Development, Agricultural Cooperation and Financing of Agricultural Development in India. In the present paper he suggests how large scale agricultural development can be organised in India on the lines of the scheme adopted to develop the Gezira Plain in Sudan and those recommended by him in the Financing of Agricultural Development in India. He pleads for a *joint* effort by the state, the landlord, the cultivator and a syndicate of capitalists. The four groups are to receive a share in the sale proceeds of the produce in proportion to the value of the contribution made by each party. The Gezira scheme is described very briefly : rather the beginning and the end are given. Applied to India the responsibilities of the state and the syndicate are given in some detail. The landlord's contribution shall consist only of the use of his land. The cultivator is to labour with his own cattle and implements and is to protect the crops against disease, insects and animals. Nothing is said about

the basis and practicability of valuation, possibly because with a hoard of middlemen between the actual cultivator and the landlord and with such state responsibilities as consolidation, drainage, reservoir and canal irrigation, veterinary service, research farm and general administration it is very difficult to say something. The scheme justifies by implication the existence of the hoard of middlemen and a share for each of them in the produce of the land which is highly questionable. Then the syndicate is to finance the cultivator for crop growing evidently in the form of loans which shall perhaps have to be mainly for feeding himself, his family and the animals. If so and if this is to be deducted from the share of the cultivator, the share may be considerably curtailed and may not leave much incentive for the cultivator. Legal coercion has been advocated for enforcing the scheme but it is not clear how it shall be helpful in forming the syndicate of capitalists. For a better understanding the author would be well advised to consider the Gezira Scheme in greater detail keeping in view the conditions obtaining in the Gezira Plain and in India and to formulate his scheme more elaborately.

MAHESH CHAND

PIONEERING THE NEW WORLD ORDER, by J B. Tayler and Khan Mohd. Bashir Ahmad Khan. Published by All-India Co-operative Institute Association, Lahore. Pp. 31, Price Re. 1.

At a time when efforts are being made to find a suitable basis for the future world order, the authors have commendably attempted to show how much a mature cooperative movement has to contribute to a clarification of our views of the objectives and to an indication of the ways to reach them. After a brief description of the progress of the cooperative movement with regard to form, structure and geographical distribution, the importance of cooperation for Asia is examined. An urban community wherein the advantages of the rural and urban areas are combined is preferred. Electrification, mechanised transport and decentralised industry are essential features. Since there is very close relationship between community and cooperation, the latter is rightly considered as one of the foundation stones: cooperation ensures the consideration of justice in economic relations. The case for cooperation is established not only from the point of view of the social scientists but also religious pundits. The conclusion arrived at in the pamphlet is that unlike the competitive economy which is a 'mechanical' system the cooperative economy is an 'organic' system which can be a practical proposition if political support be available.

The writers are however aware of the limitations of cooperation. The cooperative form of organisation is not to be slavishly followed in everything." There are many interests that can best be developed through informal societies—dramatic, choral and so forth—and by youth organisations." It is also not lost sight of that a good deal has to be done still by the cooperators to apply the principles of equity and mutuality. Greater the cooperative organisation, greater is the necessity for numerous small group of active members to take a deep interest in the whole enterprise and to meet regularly to discuss everything that bears on its success. The problem of wages is another difficult problem not only in producer societies but also in consumer societies but where the workers are also members *i.e.* where they are their own employers, the

intensity of the difficulty is greatly lessened. There is also little reason to suspect that a new practice is introduced to make more profits without a corresponding increase in the return to the workers. (This is not the case in a capitalist organisation.) Two more precautionary notes given by the authors may be mentioned. For successful industrial co-operation competitive industrial research has to be given a non-competitive basis as in agriculture Also that "the universities in which members of the staff are actively interested in cooperation should choose some locality as an extension area in which they and their students will sponsor scientific study and community services."

The pamphlet leaves the feeling that it has been rushed to and through the press (the misprints begin from the title page): a more systematic and detailed treatment is needed for driving the cooperative idea home. It is however sufficiently thought-provoking.

MAHESH CHAND

ECONOMIC LITERATURE IN URDU: 1. *Effects of the War on Indian Finance*, by Mohammad Ahmad Khan. Price Rs. 1-4-0. (2) *War and the Food Problem*, by Shafiquerahman. Price 12 as. (3) *Effects of the War on Hyderabad Industries*, by Mohammad Nizamuddin. Re 1. (4 *Price Control in Hyderabad*, by Ahmad Abdul Majid. Price Re. 1. (5) *War and Food Rationing*, by Syed Ahmad Meenai. Price Re. 1. (6) *War and India's Public Debt*, by Mohammad Ahmad Khan. Price Re. 1 (7) *England and International Financial Plan*, by Mohammad Ahmad Khan. Price 8 as. (8) *America and International Financial Plan*, by Ataul Rahman Alvi. Price 6 as. (9) *Canada and International Financial Plan* by Khawaja Mohd. Shamsuddin. Price 8 as. (10) *India and International Financial Plan*, by Syed Ahmad Meenai. Price 8 as. (11) *Excess Profits Tax*, by Syed Ahmad Meenai. Price 8 as. (12) *A Plan of Economic Development for India* (by Sir Puroshottam Das Thakur Das and others), translated by Syed Ahmad Meenai. Price 12 as. All are Usmania University Economic Society Publications, published by Book House, Abid Road, Hyderabad, Deccan.

All the twelve titles under review are small brochures dealing with varied economic topics of considerable public interest, brought out by the Usmania University Economic Society and, it may be mentioned, Dr. A. I. Qureshi, Head of the Department of Economics in the Usmania University, is personally responsible for their production. About seven different writers have written them, all of whom perhaps are ex-students of the Usmania University. Some of the pamphlets are original contributions; while others are translations of some of the well-known works in economics with which English readers are fairly familiar. For example, among other titles, there is also what is now popularly known as the Tata-Birla Plan, translated by Mr. Syed Ahmad Meenai. Similarly, we find here translations or adaptations of the Keynes and White international currency plans. Besides these, as pointed out, there are also some original contributions, such as effects of the war on Indian finance, war and the food problem, effects of the war on Hyderabad industries, price control in Hyderabad, etc. By calling these original contributions I do not mean to suggest that these are by any chance original writings of any great importance to the subjects concerned. To the contrary, most of them are renderings in Urdu of more or less known information, facts and figures available in English.

But this does not in the least minimize either the importance of these brochures or the seriousness of the work which is thus being done under the patronage and able guidance of Dr. Qureshi. For us belonging to northern India, their utility and worth can never be lost because whenever we think of introducing Hindustani as the medium of instruction in our Universities, at every step our efforts are thwarted by the absence of necessary literature in Hindi or Urdu, specially on such technical subjects. It is not necessary to mention that most of the Universities and educationists in this country are now agreed in recognizing the necessity of Hindustani becoming the medium of instruction in our educational institutions. In view of this, the more quickly we succeed in producing necessary literature in the provincial languages, the sooner will it become possible to teach our students in their mother tongue. It is in this light the value of the above publications has to be considered.

It may be mentioned that most of these brochures are conceived and written in a scientific spirit and with required academic bias The writers know their jobs and have executed the same with ability and thoroughness. For lack of space, it is not possible to pass judgment on the individual merits of each of them. In brief, it can be said that together they maintain an admirable standard and the arguments at every stage are backed by facts and figures are necessary statistics.

I may, however, take this opportunity of making a few suggestions for the consideration of Dr Qureshi, who is primarily responsible for this pioneer work. As I was through the brochures I felt that the language used by most of the writers was rather difficult, for the obvious reason that the writers seem to suffer from a bias for highly Persianized and, at places, Arabic vocabulary. This tendency, in my opinion, represents a danger to Dr Qureshi's mission, because if this initial style of the writers is allowed to stay and it prevails ultimately then the works thus produced would considerably lose their popularity with students in other parts of the country Secondly, keeping in view the defects and limits of the litho method of Urdu printing, I wonder why it is not possible for the Usmania University to give preference to type-printing, especially while bringing out such works of rather specialized and technical nature. Urdu publishers fight shy of the latter for the fear that Urdu readers, who read fiction and poetry for pleasure, will experience unbearable strain and boredom in reading type-printing, and, as a consequence, the sale of such books is likely to be adversely affected. Notwithstanding, all agree that a beginning, has got to be made somewhere. Therefore, if private producers of popular literature are not prepared to make such a bold experiment lest their profits decline, why should not the public bodies, such as the Usmania University, undertake such a missionary venture ? For instance, the above-mentioned brochures are not intended to provide reading material to the travelling public. In fact students of economics alone would use such literature. And, surely, they will read it even if it is available in rather unfamiliar print. This idea becomes even more feasible if we consider that there will be no fear of competition, as in other forms of popular literature, from competing publishers because the latter are still unattracted by such business as would yield no or little profits to them.

RAMPRATAP BAHADUR

AGRICULTURAL PROBLEM OF INDIA (In Urdu), by Shafiq-ul-Rehman. Price Re. 1.

COOPERATIVE MOVEMENT IN INDIA (In Urdu), by Mohd. Tahir Hamid. Price Re. 1.

TRADE OF INDIA, (In Urdu), by Mohd. Moinuddin Bilgrami. Price Re. 1.

INDUSTRIAL PROBLEMS OF INDIA (in Urdu), by Syed Ahmad Minai Price Re 1 Publications No. 13, 14, 15 and 16 of the Osmania University Economics Society,

Under the supervision of Dr. Anwar Iqbal Qureshi this society has brought out a number of publications in Urdu on important economic problems of India. The attempt to popularise economic literature in Urdu is highly commendable, and deserves to be given every encouragement

The first of the publications under review throws valuable light on, among others, such problems as role of the State in agricultural development, fertility of the soil, manuring and irrigation, smallness and scatteredness of holdings, agricultural implements, and live-stock. Within the space of 78 pages it gives the past, present and future of Indian agriculture. It is descriptive, critical and suggestive. The discussion relating to the preblem of economic holdings and collective farming is worth special mention. The Examination of war-time agricultural position of India is impartial and up-to-date, and the gains and losses of big and small agriculturists have been ably and clearly put. It deserves careful study.

The second publication under review defines in a lucid manner the term Cooperation, traces the growth of cooperation in foreign countries and India and examines its position in relation to the Reserve Bank and in the future. The description of the activities of land mortgage banks in various provinces in India is good. The causes of the failure of cooperative movement in India have been analysed and remedies from a practical viewpoint suggested.

The third of the above publications opens with the importance of trade in Indian economy, and later deals with inland and foreign trade, the trade policy and the effects of the present war on India's trade. The last two topics have been nicely discussed. The description relating to tariffs, exchange rate, imperial preference and trade agreements shows an intelligent understanding.

The last of the publications gives an account of India's industrial past, some important industries, domestic and small-scale industries protection, effects of the present war on Indian industries and the industrial future of India. The discussion in almost all the chapters is lucid and graphic. The publication contains ample statistical information.

All the four publications make an interesting reading and are full of much valuable material. They are thorough and thoughtful, handy and helpful, lucid and tidy. They deserve a wide circulation. One wishes that they were a little more critical at various places and more suggestive in their bearing on post-war economic reconstruction of India.

S. C. CHAUDHRI

SOVIET RUSSIA: THE SECRET OF HER SUCCESS—Edited by K. S. Hirlekar. Published by Popular Book Depot, Bombay 7. 1944. Pp. 591, Price Rs. 6. 8 as.

The thoroughness with which the leaders of Soviet Russia have accomplished the task of revolutionising the economic and social life of their people has been amply demonstrated by the amazing success with which the U. S. S R. have rolled back the tide of triumphant Nazi invasion to the borders of Germany. At one time it was thought by many that Russian communism would not be able to stand the test of time and particularly the stock of a great war and that its superstructure would crumble at the touch of such a widespread calamity. These prophets have been falsified by events of the last two years and Russian economy has revealed strength and solidarity under unparalleled stress which had not been dreamt of. Capitalist communities of Great Britain and the U. S. A. have indeed put up a record of achievement in the war which is no less splendid. What is peculiar to the leaders of Russia is, however, that they have converted in less than a generation a divided, weak and oppressed people into a solid and progressive nation, capable of occupying a status of equality with England and America, in respect of economic and political power. This has appeared like a miracle to outside observers and there is a natural desire all round to know how it has been accomplished.

Apart from anything else, Soviet Russia has contributed to world thought the idea of national economic planning, an idea which is catching hold of the minds of people in all countries, whatever may be the form of the constitution of their national economy. While the basic theories of Marxism, on which the Russian experiment is supposed to be based, its historical materialism and economic determinism, find little favour with scientific thinkers, some sort of planning is regarded as essential, even in capitalist countries, as a feature if not the foundation of post-war reconstruction which is universally taken as inevitable. It is not surprising that in a poor, backward country like India, the Soviet example should have made a deep impression on the minds of thinking people. Why not borrow a leaf from the book of Soviet Russia is a question that easily occurs to people who are impressed with the achievements of that country and are keenly conscious of the dire economic and social needs of India. What is exactly the Russian miracle and how has it been achieved? Mr. Hirlekar has rendered an extremely valuable service by bringing together in his book on Soviet Russia a wealth of material of facts and figures and a series of articles contributed by Russian experts, which throw illuminating light upon the motive power, structure and working of the communist machine. There can be no doubt about the fact that wealth production has enormously increased in Russia and that its distribution has been more evenly spread A decisive improvement in the well-being of the masses in that country is patent. The manner in which this progress has been planned and worked out will have a good deal to teach those who are now engaged in planning post-war reconstruction in India. There are, however, many aspects of the Soviet economy which have not naturally been touched in the articles published by Mr. Hirlekar and they have to be taken note of by people in this country. A careful study of the balance sheet of the merits and drawbacks of the Soviet economy is, therefore, necessary to evaluate such slogans as "Soviet communism or nothing" and "hands off private property and capitalism." and to determine the special lines on which India's economic and social future should be planned. The need of planning being admitted, assessment of the net result of the communistic efforts of Bolshevik leaders will enable the formulation of a suitable programme for India, conditions in which are largely different from those in Russia. The establishment of a political and party dictatorship, the

rise of a powerful bureaucracy and of a new class of intellectuals instead of a classless society, inequality of wages, loss of individual freedom and initiative, nominal liberty of speech and expression of thought, conversion of farms into agricultural factories, and authoritative dictation of superior powers are some of the features of Soviet Russia which have to be taken account of. Even the Soviet leaders have had to relax the rigour of their ideology and to effect working compromises in the face of hard realities. The lesson for India appears to be, therefore, to have a suitable plan on a big scale and invoke the national will to carry it out with courage, with such adjustments from stage to stage as may be found necessary. Mr. Hirlekar's book is calculated to provide inspiration for this task.

V. G. KALE

BHARATIYA VIDYA—Vol. IV. Pt. II. May 1943. Published by Bharatiya Vidya Bhawan, Bombay, 1943. Pp. 127 to 248. Price Rs. 2 8 as.

The Bharatiya Vidya is easily one of the important Journals dealing with ancient Indian culture. The present issue is named *Meghji Mathuradas Number.* The late Seth M. Mathuradas Toprani was a very active and honest businessman. None could shake him off when he was bent on a mission. There was no place of luxury in his personal life. His charitable deeds are numerous. It will be in the fitness of things to have an Arts College in his memory.

The issue under review contains about 11 good and high standard articles, Prominent among the contributors are: Mr. K. M. Munshi, Mr. B. J. Wadia. Dr. S. K. De, Dr. A. D, Pusalker, and Prof. P. K. Gode. All the contributions do indeed add to our knowledge in its different branches. It is necessary to examine critically and dispassionately the various aspects of Indian culture from the Hindu point of view. I am glad to find that all the articles have been written on that basis. The Editor deserves our congratulation for such a fine publication. I wish every success to the Journal.

UMESHA MISHRA

Books Received

ADARKAR PLAN OF HEALTH INSURANCE: Will it work? By A. N. Agarwala, Published by East End Publishers, E/82, Allengunj, Allahabad 1945, Price Rs. 3-12.

[To be reviewed]

AGRICULTURAL PROBLEMS OF INDIA (In Urdu). By Shafiq-ul-Rehman. Published by Osmania University Economic Society, Hyderabad, Dn. Price Re. 1.

[Reviewed in this issue]

AGRARIAN PROBLEMS FROM THE BALTIC TO THE AEGEAN. Published by the Royal Institute of International Affairs, 1 East 54th Street, New York. 1944. Pp. 96. Price 3sh. net.

[Reviewed in this issue]

ANNALS (INDIA SPEAKING). Edited by Sir Manilal B. Nanavati and C. N. Vakil. Published by the American Academy of Political Science, 3457 Walmut Street, Philadelphia 4, Pansylvenia. 1944. Pp. 267.

[Reviewed in this issue]

BRITAIN'S STERLING BALANCES AND EXTERNAL DEBT. By Donald T. Heatherington. Published by East End Publishers, E/82, Allengunj, Allahabad. 1945. Price Rs. 1-12 as.

[To be reviewed]

CO-OPERATIVE DISTRIBUTION IN BOMBAY. By M. C. Nagarseth. Published by Bombay Provincial Co-operative Institute, Bombay. 1944. Pp. 82. Price Rs. 2 8 as.

[To be reviewed]

CURVE FITTING FOR STUDENTS OF ECONOMICS. By Brij Narain. Published by S. Chand & Co., Lahore. 1944. Pp. 197. Price Rs. 10.

[To be reviewed]

CONSTITUTION OF INDIA. By M. N. Roy. Published by the Radical Democratic Party, P. B. 580, Calcutta. 1944. Pp. 46. Price Re. 1.

[Reviewed in this issue]

COOPERATIVE MOVEMENT IN INDIA (In Urdu). By Mohd. Tahir Hamid. Published by Osmania University Economic Society, Hyderabad, Deccan, Price Re. 1.

[Reviewed in this issue]

ESSAY ON GANDHIAN ECONOMICS. By J. J. Anjaria. Published by Vora & Co. Publishers, Ltd., Bombay (2). 1945. Pp. 40. Price Re. 1 4 as.

[To be reviewed]

ECONOMICS OF FULL EMPLOYMENT. By T. Baligh and Others. Published by Basil Blackwell, Ltd., Oxford. 1944. Pp. 213. Price 12s. 6d,

[To be reviewed]

ELEMENTARY CIVICS. By S. N. Sen. Published by Book Land Ltd., Calcutta and Allahabad, 1945. Pp. 353. Price Rs. 4.

[This book deals with elementary principles of Civics and Indian Administration so as to suit the Intermediate classes of the various examining bodies in this country. It is divided into three parts. The first part is devoted to principles of Civics ; the second to Indian administration ; and the third to economic and social conditions in India. The various topics have been very briefly but carefully discussed and to one who does not have the time to read in detail about the subjects which form the subject-matter of this book, it would serve a useful purpose. It is, of course, meant mainly for students.]

FOOD PROBLEM OF MAHARASHTRA. By N. G. Apte. Published by Samarth Bharat Press, 41, Budhwar Peth, Poona 2. 1944. Pp. 71. Price Re. 1.

[To be reviewed]

FROM THE FARMER TO THE CONSUMER. A Study of Price Spreads. By M.C. Munshi, assisted by Bishan Sinha. Published by Research Department of Federation of Indian Chambers of Commerce & Industry, New Delhi. 1945. Pp. 43. Price Rs. 2.

[Reviewed in this issue]

FUNCTION OF STATE RAILWAYS IN NATIONAL ECONOMY. By T. V. Ramanujam. Published by the Author, Union Christian College, Alwaye. 1944. Pp. 183. Price Rs. 4.

[Reviewed in this issue]

FUTURE OF INDIAN INDUSTRY AND OTHER ESSAYS. Published by Head of the Economics Department, The University, Allahabad. 1945. Pp. 58. Price Re. 1 8 as.

[Reviewed in this issue]

FUTURE OF THE RUPEE. By C. N. Vakil and J. J. Anjaria. Published by Popular Book Depot, Bombay 7, 1945. Pp. 39. Price Re. 1 4 as.

[Reviewed in this issue]

FOOD PROBLEM IN INDIA. By K. D. Uppal. Published by M. P. Mandal, Jammu, 1944. Pp. 25. Price 8 as.

[In this pamphlet the author has examined in brief the food problem which has assumed an acute aspect in the recent past. The publishers inform us that "in recent years he (the author) has cultivated a taste for economic research." As there is nothing very original or revealing in this booklet, we are not sure if this can be claimed to be a research work. But it is a brief and fair attempt to analyse and study the food problem as it faces this country.

The author has made good use of the literature emanating from the official sources. Perhaps in the next edition he would improve the language and the publishers, the printing and get-up.]

GUDE TO PRACTICAL BANKING. By A. N. Khosla and B. V. Krishniah. Published by the Authors. Post Box 239, Lahore. 1939. Pp. 277. Price Rs. 3.

[Reviewed in this issue]

HISTORY OF RUBBER REGULATION, 1934—43. By Sir Andrew McFadyean Published by George Allen and Unwin, Ltd., Ruskin House, London, W.C.I. 1944. Price 10s. 6d.

[Reviewed in this issue]

GANDHIAN PLAN. By S. N. Agarwal. Published by Padma Publications, Ltd., Bombay. 1944. Pp. 115. Price Rs. 2-8 as.

[To be reviewed]

INDIA'S STERLING PROBLEM AND THE WAR. By B. Dhar. Published by Co-operative Book Depot, 54, College Street, Calcutta. 1944. Pp. 165. Price Rs. 3.

[Reviewed in this issue]

INDUSTRIAL PROBLEM OF INDIA (in Urdu). By Syed Ahmad Minai. Published by Osmania University Economic Society, Hyderabad, Deccan. Price Re. 1.

[Reviewed in this issue]

AN INTRODUCTION TO ECONOMIC THEORY. By S. N. Sen and S. K. Das. Sixth Revised Edition. Published by Bookland Ltd., Calcutta and Allahabad. Pp. 551. 1944. Price Rs. 6-8-0.

[This very successful book on economic theory for student of the Indian colleges and universities has already passed through six quick editions; and this shows to what great an extent it has met the demand of students in this regard. In the sixth edition, chapters on Definition of Economics, Demand, Laws of Returns, Monopoly, each have been rewritten and three new chapters have been added on Combinations, Distribution of income and Cost of Production. We believe that in this enlarged form it will meet the needs of students even more successfully than before.]

[Reviewed in this issue]

INTRODUCTION TO LABOUR WELFARE. By H. P. Oza. and V. P. Kotdawala. Published by Sandesh Prakashan Mandir, Sarangpur, Ahmedabad. 1944. Pp. 138. Price Rs. 6-8 as.

[Reviewed in this issue]

INDIA NEED NOT STARVE. By Michael Brown. Published by Longmans, Green & Co. Ltd. 1944. Pp. 190. Price Rs. 3.

[This finely got-up and low-priced book is yet another study of the vexed food problem of this country. The author divides the book in four parts. The first part is called "The Mirage of Plenty"; the second, "The Impact of War"; the third, "The Very Queer Case of Bengal"; and the fourth, "Where do We go from Here?" He gives a connected account of the events which led to the Bengal food crisis and like developments in other parts of the country and warns that the present-day food famine is not a war-time phenomenon but is indicative of the existing gap between our needs and produce in respect of foodstuffs. Unless this gap is bridged over by proper efforts, regarding which Mr. Brown offers some suggestions, this disheartening spectacle might reappear. The book is frank and is written in an interesting style. An economist might find too long a chain of thought at places between the point of start and the conclusion but the general reader, for whom perhaps the book has been primarily written, would surely enjoy this work. It is a timely and useful publication and would show to the reader why it is necessary for us to attach proper importance to agriculture which today appears to be losing all its court-payers rather rapidly.]

INDUSTRIAL PLANNING: WHY AND HOW. BY Dr. N. Das, Published by General Printers and Publishers, Ltd., 119, Dharamtala Street, Calcutta. Second Edition, 1944. Pp. 132. Price Rs. 3

[In these days when the atmosphere of economic thought is laden with economic planning, a man in the street or a beginner often finds himself at sea and badly feels the need of an elementary book on economic planning with special reference to this country. To such a reader, a perusal of the book *Industrial Planning: Why and How* by Dr. N. Das, Ph. D., I. C. S., will surely repay. The first edition of this little book was published as far back as 1940; and as since then much water has flowed down the Ganges, the book has been revised it appears considerably. The book covers topics like the following: Rationale of Industrial Planning, The Bombay Plan, War and Indian Industries, Problems of Industrial Planning—Raw Materials, Capital, Labour, Entrepreneurs, Organization, etc., Electrical Development, Unemployment, technical Education and so forth. The chapters have been crisply written and the style is simple and lucid. The book will surely benefit those who want to acquaint themselves with the A B C of industrial planning in this country, though economists would not perhaps find in its pages any new information, facts or ideas.]

LABOUR BULLETIN. VOL. III. NO. 3. New Series (July-Sept. 1944). Published by Labour Department, U. P., Cawnpore, 1944. Pp. 51. Price 4 as.

[Reviewed in this issue]

OUR ECONOMIC CONDITION. By Dr. Baljit Singh. Published by Murari Book Depot, Hospital Road, Agra. 1944. Price Rs. 4.

[Reviewed in this issue]

OUR ECONOMIC RESOURCES. By R. D. Tiwari. Published by New Book Co., Bombay. 1944. Pp. 137. Price Rs. 7.

[Reviewed in this issue]

OUR STERLING BALANCES. By M. V. Bhatwadekar. Published by Padma Publications, Ltd., Bombay. 1944. Pp. 47. Price Re. 1.

[To be reviewed]

OUR FOOD: LUCKNOW CITY. By Prof. S. K. Rudra. Printed at Government Central Press, Allahabad. Pp. 4[illegible]. Price not given.

[To be reviewed]

OUR ECONOMIC PROBLEMS. By J. D. Unwin. Published by George Allen & Unwin, Ltd, London. 1944. Pp. 148. Price 8 sh. 6d.

[To be reviewed]

OTTOMAN EMPIRE FROM 1720 to 1734. By Mary Lucille Shay. Published by University of Illinois, Urbana, Illinois. 1944. Pp. 165. Price 1·50.

PROCEEDINGS OF THE FOURTH CONFERENCE OF INDIAN SOCIETY OF AGRICULTURAL ECONOMICS Published by Indian Society of Agricultural Economics, Mahatma Gandhi Road, Fort. Bombay. 1944. Price Rs. 5.

[To be reviewed]

PIONEERING THE NEW WORLD ORDER. By J. B Tayler and Khan Mohd. Bashir Ahmad Khan. Published by All-India Cooperative Institute Association, Lahore. Pp. 31. Price Re. 1.

[Reviewed in this issue]

PESSIMISM IN PLANNING. By A. N Agarwala. Published by Messrs. Kitab Mahal, Zero Road, Allahabad. Price Rs. 5-12 as.

[Reviewed in this issue]

PROF. R. M. JOSHI'S PAPERS AND WRITINGS. By A. R. Bhat. Published by N. K. Publishing House, Poona City. 1944. Pp. 112. Price Re. 1-8 as.

[To be reviewed]

PLANNING A NEW INDIA. By M.N. Roy. Published by Renaissance Publishers, P. B. 580, Calcutta. 1944. Pp. 64. Price Re. 1.

[Reviewed in this issue]

PLAN OF ECONOMIC DEVELOPMENT FOR INDIA, PART II. By Sir P. Thakurdas and Others. Available at New Book Co. Bombay.' 1945. pp. 34. Price Re. 1.

[To be reviewed]

REPORT OF THE POST-WAR DEVELOPMENT COMMITTEE. Published by Bombay Provincial Cooperative Institute, Bombay 1944. Pp. 29 Price 4 as.

[To be reviewed]

REPORT ON THE ECONOMIC SURVEY OF FIVE VILLAGES IN HAMBANTOTA DISTRICT. Published by Ceylon Government Press, Ceylon. 1944. Pp. 20. Price 40 Cents.

RECONSTRUCTION OF ECONOMIC SCIENCE. By A. N. Agarwala Published by Messrs. Kitab Mahal, Zero Road, Allahabad, 1945. Price Rs. 3-8 as.

[To be reviewed]

RECONSTRUCTION COMMITTEE OF COUNCIL'S SECOND REPORT ON RECONSTRUCTION PLANNING. PUBLISHED by Manager of Publications, Delhi. 1944. Pp. 57. Price 8 as.

RECONSTRUCTION IN POST-WAR INDIA. By Sir M. Visvesvaraya. Published by All-India Manufacturers' Organization, Bombay. 1944. Pp. 60. Price Re. 1.

[Reviewed in this issue]

RUBBER INDUSTRY IN INDIA. By Prof. N. N. Godbole. Published by All-India Manufacturer's Organization, Bombay. 1944. Pp. 24. Price not given.

[This booklet on the rubber industry of this country appears to us to be rather unbalanced and is not likely to interest the economist. It neither discusses its present position of rubber industry in India nor the scope of its further expansion in this country. A history of the Indian rubber industry is also lacking. All that it has about India is a list of 9 factories working in India in 1943 and a few facts about rubber trade in three-quarters of a page. Some relevant statistics have also been reproduced on the last page. But for the rest the book is devoted to a scientific discussion of the rubber plantation and industrial processes. Under the circumstances the title of the book is a misnomer.]

RUSSIA TODAY. By Nityanarayan Banerji. Published by the author, C/o National Security Bank, Ltd., Calcutta and Bombay. 1944. Pp. 178. Price Rs. 3.

[Interest in Russia is growing daily and to those who want to read a first-hand account of the various aspects of Russian life and conditions would do well to read the book under review. Though there is not much in the book that will interest an economist *qua* economist, there is enough and to spare to keep him lost for a couple of hours. The author deals with his subject with confidence and in an extremely easy and lucid style and the book is as interesting as fiction. The appendices given by the author are very useful and instructive.]

SCHEME FOR CO-OPERATIVE EFFORT FOR DEVELOPMENT OF AGRICULTURE. (in Urdu) By Nizamuddin Hyder. Published by Nizamuddin Hyder, Khan Bahadur, P. O. Kakori, Dist. Lucknow. 1944. Pp. 11. Price 8 as.

[Reviewed in this issue]

SOCIAL INSURANCE PLANNING IN INDIA. By A. N. Agarwala. Published by the author. Economics Department, University of Allahabad. 1944. Pp. 218. Price Rs. 5 12 as.

TRADE OF INDIA (in Urdu). By Mohd. Moinuddin Bilgami. Published by Osmania University Economic Society, Hyderabad Deccan. Price Re. 1.

[Reviewed in this issue]

TEA INDUSTRY IN THE PUNJAB. By Gurdatt Chand. Published by Rama Krishna & Sons, Lahore. 1944. Pp. 152. Price Rs. 3.

[This is a brief but interesting study of the tea industry in the Punjab. In the Punjab tea is mainly grown in the Kangra Valley which the author complains has been generally ignored by writers on geography and tea industry, and even the Government have never thought it necessary to institute an enquiry into the industry of this happy valley. The author consequently had to carry on his investigations in the face of several difficulties lack of literature, suspicions of the businessmen of the valley and perhaps shortage of time at his disposal. It is, therefore, not surprising that the enquiry is not as exhaustive as we would like it to be. But the author handles whatever material he could gather systematically. He first discusses the position of tea industry in the world, in India and in the Punjab; and then narrates some facts of plantations in Kangra valley. In about 5 dozen pages he discusses the labour conditions in the valley and throws light on housing conditions, wages, monthly budgets, indebtedness. etc. Interesting facts regarding production, employment and marketing have been briefly laid down in a separate chapter and the last chapter takes a peep into the future of this industry. Mr. Chand advises the industry to improve both qualitatively and quantitatively—at present the annual output is below 3 million lbs; and hopes with Prof. K. T. Shah that this area can be made to yield enough tea for the local Punjab market, and even for export to countries beyond land frontiers.]"

UNITED NATIONS OF THE WORLD. By Haridas T. Muzumdar. Published by Universal Publishing Co., New York. 1944. Pp. 288. Price $ 2. 50.

[To be reviewed]

YOUR FOOD. By Masani. Published by Padma Publications Ltd, Bombay, 1944. Pp. 82. Price Re. 1.

This is the first number of the Tata Studies in Current Affairs sponsored by the Public Relations Department of Messrs. Tata Sons, Ltd., with a view to stimulate public interest in some vital problems of this country. The author first discusses such questions as why do we eat, how much we should eat, what is a balanced diet, what are the Indian diets like and so forth. He gives an estimate of food shortage in this country by saying that we eat just 5/7ths of what we should eat. "It means if we were to decide that all Indians should eat an adequate and balanced diet *there would be no food at all for about 115 million of our people*." Mr. Masani is not perturbed by rising population and thinks that it may be difficult to increase food production proportionate to an increase in population, but it is not impossible. He fortifies his view by the fact that a rising standard of living would bring down the birth rate. But would it bring about a reduction in birth rate *automatically* and without any conscious efforts on our part ? We are not so sure. Mr. Masani completes his survey by suggesting briefly how we can increase our food supply. He adds to his reputation as an author by writing this eminently readable and excellent book. Briefly but adequately he discusses the medical, physiological, economic and other aspects of the food problem in their proper places. Within the short compass of less than seven dozen pages, it is a creditable achievement. To those who intend to join Mr. Masani in his excursions into the economic and non-economic fields, we unhesitatingly promise full enjoyment.]

ZONAL DIVISIONS OF INDIA. By K. M. Munshi. Published by Vora & Co. Publishers, Ltd., Bombay, 1945. Pp. 16. Price 8 as.

[Reviewed in this issue]

PROCEEDINGS OF THE 27TH SESSION OF THE INDIAN ECONOMIC CONFERENCE HELD AT DELHI

(Dec. 30, 1944 to Jan. 2, 1945)

INAUGURAL ADDRESS

BY

THE HON'BLE SIR ARDESHIR DALAL

Member for Planning and Development, Government of India.

I am grateful to you, Mr. Chairman and Members of the Reception Committee, for having given me this opportunity to meet the members of the Indian Economic Association and other delegates to this, the 27th Session of the Indian Economic Conference. I particularly value it as the task with which I am confronted is primarily economic—to plan the economic uplift of the masses of our people—and the advice, assistance and co-operation of economists is of the utmost value to me in my work.

Whatever opinion one might hold of the theories of Karl Marx, his views on the class struggle, or the ultimate destiny of society, there can be little doubt that he, more than anyone else, is responsible for the concept of history as a dynamic evolution motivated by economic forces. Whether socialism will succeed capitalism in the long run, just as the capitalistic system succeeded the feudal, or whether technocracy or a managerial society will take its place, there is little doubt that the struggles and convulsions of the modern world are, at root, due to economic causes. The last world war was due to that factor, and the present titanic struggle has the same origin. In the opinion of many, there will be no finality to these conflicts until the whole world settles down to a state of stable equilibrium in the economic sphere, or, in the language of Marx, the antithesis is resolved into a synthesis. What the nature of that equilibrium or synthesis will be, I will not be presumptuous enough to prophesy. In our own country, the jealousies, strife and discord which are hampering our progress at every stage, can ultimately be traced to the same economic roots, although on the surface they may appear to be caused by religious or communal or other differences. If the economic condition of the Muslims and the backward classes can be bettered, I feel that a great deal of the present stress and strain through which we are passing, will be relieved, and we shall be enabled to march together on the road to social and political progress.

The slump of the thirties and after showed more clearly than any theoretical teaching could have done, the importance of understanding the economic aspects of the community's life, and it also showed the inter-dependence of the world economies, whether they belonged to the West or the East, the agricultural countries or the industrial countries. One aspect which added to the world interest in economic matters was the progress of Soviet Russia under a system of planned economy. At a time when production, incomes and employment were falling in different parts of the world, we had a vast country where production, incomes and employment were recording a steady and indeed a phenomenal increase. The explanation lay largely in the fact that whereas in the rest of the world there was very little economic planning at the time, in Soviet Russia the whole economic life of the country was conducted on a planned basis by the Government. Before the war, other countries, particularly Germany and Italy, had also embarked upon economic planning on their own lines, and in the United States President Roosevelt's New Deal and the notable experiment of the T. V. A. provide instances of economic planning on democratic lines. The present war has provided conclusive evidence of the value of understanding and planning the economy of a country. What has been done for the purpose of winning the war, the lessons that have been learnt, can be put to good use for planning for the happiness and progress of the world in peace.

With this recognition of the importance of economy has also come an increasing appreciation of the work of economists and a growing recognition of the role they are legitimately entitled to play in shaping the policy and guiding the life of the country. Yours, gentlemen, is not a very old science; but, rightly employed, it can render invaluable service for bettering the conditions of life to the vast masses of the people of this world. Economic planning in some form or another has definitely come to stay, and with it the economist has acquired a recognised place in the shaping of public policy.

Turning to our own country, all that I have been saying so far with regard to the importance of both economics and economists apply with even stronger force here. The vast masses of the people of this country have long had a standard of life which is appreciably below that of the peoples of the rest of the civilised world. The per capita national income of this country is but a fraction of the per capita income in countries like the United States or the United Kingdom. Food consumption is in many cases below the levels considered as minimum by nutritional experts; consumption of cloth is only 16 yards per

head per year, while conditions of housing, both in urban and rural areas, are most unsatisfactory. The availability of the essential services like education, medicine, sanitation, public health, etc., is of such a low order of magnitude that it might lead some to question our claim to be a civilised nation. It has been estimated in terms of pre-war prices that the ensuring of the quantum of food, clothing, housing and services considered as the barest minimum for civilised existence, would involve a cost of Rs. 74 per capita, while the actual per capita income of the country, which of course does not take into account any inequality in distribution, is only Rs. 65. Obviously, the present position should cause disquiet to any person who is interested in the welfare of this country. Our existing production of goods and services is not sufficient, even if it were distributed on an arithmetically equal basis, to give everyone in this country the basic minimum for civilised existence. Under the circumstances, it is imperative that every possible attempt should be made to increase our production of goods and services and also take steps to ensure that the increased production is so distributed that no one in the country gets less than a reasonable minimum of goods and services. This is an object about which there can be no quarrel and about which there is, in fact, no quarrel. There is also no controversy about the thesis that if such an increase were to be brought about, it cannot be left to the free and spontaneous working of the normal economic factors in the country. Enough time has been given to the free and spontaneous operation of these factors, and the results do not warrant the conclusion that they will deliver the goods. Economic planning of the Nation's economy, the ordered and guided development of various aspects of our economic activity with a definite objective is absolutely essential. Non-official organisations and prominent individuals have been considering this problem and have outlined proposals for a planned development of India's economy. Credit is due to the National Planning Committee who definitely put the idea of economic planning on the Indian map and did so much spade work for outlining its detailed application to the country's economy. Then, you have the Bombay Plan which, for the first time, defined the objectives in clear and precise terms, laid down the targets and outlined the methods for achieving them. It drew world-wide attention and did a great deal to stimulate Government into action. This has been followed by the People's Plan and a number of other Plans. I am glad to see from your programme that you are going to hold one sitting for the purpose of discussing the planned development of India's economy, and I need hardly say

that I am looking forward with keen interest to your discussion on the subject.

As you know, the Government of India have been considering the subject of economic planning for the last two years, and most of you must have seen the two Reports which have been issued by the Reconstruction Committee of the Executive Council on this matter. From the point of view of professional economists, a criticism has been levelled against these Reports that they do not provide a plan for the ordered development of the country, inasmuch as they do not indicate the overall target in respect of increase in national income which it is intended to achieve during the given period. I had made reference to this point in my recent address to the General Policy Committee in Bombay. In a country with totalitarian economy, like Russia, it would be possible for the Government to lay down an *a priori* target for a certain period and then set to work all the agencies of Government at its control to achieve it with a reasonable prospect of success. We know that in the case of Russia, such success was achieved, but it was done by the most rigid regimentation of every aspect of the country's life and at the cost of acute tribulation to a large number of people accompanied with serious loss of life. Neither this Government, nor even a National Government, I feel, would attempt to do so in a country like India. To my mind, it is neither feasible nor desirable. What the Government can do, however, is to make a survey of all its resources in men, materials and money, estimate to what extent it is possible to employ them for as large an improvement in the economic life as is feasible within the limitations set by the political, social and other conditions of India, and thus arrive at a reasonable target to be achieved within a given period of time. That is what the Government is now doing. It is trying to consider in detail the extent to which it is possible to obtain an increasing output of goods and services under the various heads of production, and to determine the targets separately for the different branches of the country's economic life. On this foundation, it is possible to put forward an overall target in terms of the country's income. Government is, therefore, attempting to obtain from the Provinces and some of the major States an idea of their requirements and the means at their disposal. It has already framed, or is in the process of framing, plans for the Central subjects. It must not be forgotten that provincial autonomy exists in a majority of subjects, including even industrial development, and that the major States are autonomous in these matters. The Government has, therefore, to proceed cautiously and try to achieve what is possible through goodwill and persuasion.

Individual targets have already been laid down in a number of cases. A thousand-crore plan for the development of agriculture, prepared by a Committee of the Imperial Council of Agricultural Research, aims at doubling the output of agriculture in a space of 15 years. In the case of industries, a number of panels to deal with individual industries, or allied groups of industries, are being formed, and these panels will be assigned targets for the development of the particular industries. In the case of communications, the target is to construct 400,000 miles of roads within a period of 10 years. The Sargent Plan of Education aims at free and compulsory education from the age of 6 to 14 for the whole country within a period of 40 years. Government is awaiting the report of the Bhore Committee on the subject of public health and sanitation. When these and other materials are collected, it would be possible to build up an all-India plan.

In this work of planning and development, gentlemen, I rely a good deal upon co-operation and help from you, the professional economists of the country. A great deal of research work has to be done into the various aspects of the country's economic life, not only for facilitating the formulation of proposals for planning, but also for watching progress and making readjustments from time to time, to ensure the success of the plan. Then again, even elementary data relating to some aspects of the country's economy are not readily available; and as far as statistics are concerned, not only are there substantial inaccuracies in the material we have got, but there are also large gaps even in such statistical material as has been so far collected in the country. Then again, there will be many problems of policy on which the trained analytical judgment of the professional economists will be of the greatest value to Government in the formulation and execution of their detailed proposals. For all these things, I rely on your co-operation and goodwill. We have already got a Consultative Committee of Economists for the Government of India, and they have been doing very useful work. I propose to have, in addition to this large committee, a small sub-committee of non-official economists who will meet more frequently—perhaps, once a month—and give me their advice. Government is also considering the question of a closer association with the Indian Statistical Institute which has performed such yeoman service in the field of Indian statistics and which, I hope, will have many more years of fruitful work in the service of planning and economic development in this country. We are also thinking of locating in Delhi a National Institute of Economic Research which will be an autonomous body, mainly non-official in its

composition and management but having at its disposal funds provided by Government which will be utilised for carrying out systematic, scientific and impartial research surveys into various problems connected with the task of planning and economic development in India.

Finally, I would like to repeat once again my sense of pleasure in having been given this opportunity to be in your midst. The subjects you have selected for discussion are all of the greatest topical interest and well worth discussion at the hands of your Association. It now only remains for me, gentlemen, to inaugurate this Conference and wish it a successful and fruitful session.

PRESIDENTIAL ADDRESS

BY

L. K. HYDER

(Aligarh Muslim University)

The first duty of a president is to record the losses suffered by Economic Science during the year. In India, I am glad to say, I have none to report. In England, Mary Paley Marshall, Alfred Marshall's widow, died at Cambridge on March 19, 1944, in her 94th year. With her husband she was joint-author of "Economics of Industry", first published in 1879. Much of what the intellect of Marshall accomplished is due to her devotion and understanding during 47 years of married life.

In Central Europe the Nazi terror raging since 1933 has deprived eminent economists of their chairs and their nationality. Some have died in misery and some have found a precarious existence in exile. Of many there is no trace. Some whose books I used to review for the Economic Journal now write in English, instead of German. That is a gain for which we must be thankful.

Before I proceed to my subject I wish to make a few remarks about the progress of economic studies and the training of economists. Economics has been taught for the last fifty years at Indian Universities. But it has remained academic, without much light or fruit for our national life. We are weighed down by numerous lectures, numbers, examinations, and, unsatisfactory conditions of service. We have not much

to show either as trainers of young men or as original contributors. In pure theory we depend upon the work done in Europe and America. The field of Economic History of our country lies unexplored. As regards the continent of Asia, no Indian economist, so far as I know, has attempted a survey of the basic economic institutions of Eastern nations. I have often asked myself the question why the study of Economics has not produced a stirring of the waters, and I will attempt an explanation for your consideration.

Our Science has not sprung from our soil. It has come from outside and has not had time to acclimatise itself. Its assumptions, its environment and even its language remain strange and unreal, and we work in an atmosphere of twilight. As regards our equipment, it is not many-sided and strong. Lest I be misunderstood, let me illustrate the point:—

For the study of Economic History of our country a man must have a good knowledge of Sanskrit and of some of the living vernaculars. Further, he must know some European languages and be an economist as well. For the Muslim period, a man must be a scholar of Arabic, Persian, and Turkish. He must be well-versed in the literature of these languages and must have a good knowledge of one or two European languages. Do we train such men? I am afraid not. Much of what passes for Economic History does not lay bare reality, but is without reason either optimistic or pessimistic.

In Statistics the work done by departments of Government is discontinuous and haphazard. The Government has not got an adequate and well-trained staff to correlate and interpret statistical material. As regards additions to our ranks, our students who seek a doctor's hat either here or abroad do not come into contact with many minds, but confine themselves to one teacher and their own "*paperasserie*"

On weighing the evidence I am of opinion that it would be a sounder practice to put a young man through a regular course of study of three years at one of the centres of Economic learning in England and to encourage him to proceed to a higher degree if he is a scholar of real merit. When such men come back it might be possible with the collaboration of senior men amongst us, to lay the foundations of Schools of Economics, which under favourable conditions might create a tradition and become centres of Economic light and learning. It would be in my opinion desirable for us to travel in our own country and also in other parts of Asia and Africa to get into touch with facts for comprising the face of things.

I wonder whether many of us who are fond of writing will at all be inclined to accept a *pensee* of Joubert: "*Inspirez, mais n'ecrivez pas!" dit Lebrun ; c'est ce qu'il faudrait dire aux professeurs, mais ils veulent e'crire et ne pas ressembler aux Muses.*" It might be better to keep to the role of inspiration and thus follow the Muses. In course of time, ripe scholarship will yield fruit.

There is a great need for the establishment of independent bureaux of economic research for the study of economic problems of our country. Any funds, given by benefactors who have the public and not a sectional interest at heart, will yield a rich harvest for the guidance of statesmen, administrators, and social workers.

There is one more matter to which I must refer. I was brought up in the school of orthodoxy and started teaching Economics with confidence in its doctrines. I thought we had a body of well-defined laws or dogmas. Now when I have come to the end of my career, I do not possess the faith which I had at the beginning. The old ideas have been demolished and the new ones have not acquired the certainty and clearness of outline of the old.

Many years ago, I read a book entitled, "The Nature and Necessity of Interest". We have now become aware that little is known of its nature and of its necessity there is serious doubt. I wonder what theoretical justification is left for regarding Interest and Profit as necessary constituents of Supply Price. The one element, which stands firm and clear, above this mass of wreckage, is the payment of Labour, the Wage.

STANDARD OF LIVING

Gentlemen : You have given me ample time for reflection to make my address short. I am sure you feel the incommodity of long addresses. In the little time that I will take, I wish to consider some issues which are likely to arise in raising the standard of living in the East, particularly in India. The first regular International Labour Conferenee to be held since the outbreak of war met in Philadelphia in May, 1944 and unanimously recognised "the solemn obligation to further among the nations of the world programmes which will achieve full employment and the raising of the standards of living." This question lies behind all schemes of construction and recons-

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*"Inspire but do not write", said Lebrun ; this is what the professors should be told, but they want to write and do not wish to resemble the Muses".

truction, both official and non-official, in our country of divided counsels. Public opinion has become aware that raising the standard of living means increasing production, in which industrialisation is of chief importance. There are other matters also, such as disease, ignorance, increase of population, important in their bearing on the poverty of our people but the problem is rightly regarded as essentially one of production. But the matter could also be regarded from the consumption end. You will agree with me that, viewed from that angle, the standard of living is correlated to climate, sentiment and aesthetic preferences. The standards of consumption of food, clothing, housing, health, amusement, leisure, and other amenities of life cannot be the same in India as in other countries. With a temperature varying from 105 to 118 degrees for a considerable part of the year, one cannot imagine an increase in the *per capita* consumption of meat, stimulating beverages, yardage of woollen or cotton cloth or corrugated iron sheets for houses. Behind the standard of living lie values which in their totality form the way of life of a people. Now the way of life also varies with different races. It is a heritage of the past and may be influenced very slowly and imperceptibly by "other ways." We perceive something of this change coming over Eastern people in their eagerness to know the secret of the strength of Europe. Considering merely the external, objective standard of living, with which we as economists are primarily concerned, it is to be noted that it is low in India and has not appreciably changed in comparison with the standards of other countries. Germany, U. S. A., Italy, Japan and Russia have become industrial powers of the first order. Our country with its rich and varied natural resources does not make a battleship, an aeroplane, a locomotive or any kind of machine. If our object is to raise the standard of living, we must increase production, not in one, but in all branches of activity. National programmes of education and health are important but they are long term matters and influence production after some time. Roads, Railways and airways will also help but will cost much and they will not add directly to the "produce" of India. They will facilitate movement of produce but cannot increase its quantum. There is no reason to suppose that at present any kind of produce is not marketed for want of such facilities. Also, there is another aspect of the matter, *viz.*, of cost. The burden of it will be chiefly on the Indian peasant but the benefits to the peasant of some of the ultra modern means of communication are doubtful. For Example, it is difficult to see the direct advantage to Indian agriculture of schemes of expenditure for improving air-travel. Or take Indian industry. It requires a little faith to believe

that the mind of the industrialist will travel as fast as his body, increase the productiveness of Indian industry and thereby raise the standard of living of the Indian factory worker. In reading about these programmes, one is reminded of the story of a Grand Vizir of Turkey in the sixties of the last century. An ambassador of a Great Power was laying before the Grand Vizir costly projects for the construction of roads and railways and improving banking facilities. The Grand Vizir listened to the ambassador for a while but as the latter's enthusiasm increased, the Grand Vizir quietened the ambassador with the remark: "*Attendez, Excellence, Nous l'aurons, l'un et l'autre, des banques et des routes, eufin la banqueroute.*"* Turkey was not able to free herself from the load of these programmes for more than half a century. These schemes are going to cost and if the produce of India is not increased at the same time, perhaps funds will be created but one would have thought that perhaps enough had been seen of the virtues of "Created Money." There is no getting away from the main, central fact that unless our productiveness is increased considerably, we cannot succeed in raising the standard of living of our people or embark upon schemes the benefit of which is distant and indirect and the cost of which is immediate and heavy.

How low our standards are regarded from the consumption end is sometimes revealed in an appalling manner in a war or some visitation of Nature. The Ryot who forms the bulk of the population is more or less in the same position as the Negro, the Fellah, the Bedouin and the Coolie of the island-world of South East Asia. I proceed now to unfold this matter in some detail in order to bring out the uniformities of economic life of these types of humanity.

The Negro carries the weight of African economy. It is he who constructs the roads and railways, works in the mines and on the plantations, in the shops and in the bureaux. The co-operation between the White and the Black has been defined in the pharse: "the muscle of Black and the brain of the White."*

This fact comes out strikingly in the figures relating to the operations of the Goldmining members of the Transvaal Chamber of mines in the report for the year 1943. The average number of Europeans employed per month was 37,800, of non-Europeans 2,94,000. The total amount earned in salaries and

*Wait a bit, Your Excellency. We shall have both, the banks and the routes, finally bankruptcy."

*Noirs et Blancs en Afrique par Westermann.

wages by the Europeans was £ 20·3 million and by the Non-Europeans £ 11·1 million. Further north, large areas of land have been taken away from the Negro. The result of this alienation of land has been that in some areas reserved for the Negro, the density of population is as high as 1,800 per sq. mile. Overgrazing and soil-erosion have been the natural consequences. Throughout his history, the Negro has met misfortunes with a smiling face. He forgives and forgets easily. No other race possesses this quality in such measure.

The Fellah in Egypt is more or less in the same position as the Ryot. As in India, the main industry is agriculture. Cotton gives the bulk of the national income. The population is increasing rapidly. In 1800, Egypt had a population of 2·5 millions, in 1930 it was 15 millions. It is estimated that it will be 18 millions in 1946.

Like India, Egypt is a country of small cultivators. In 1934-35, the total number of properties up to 1 Feddan was 1,644,654 comprising 6,67,383 Feddans, the average per proprietor being 0·41 Feddan. There were 5,57,282 properties varying in size from one to five Feddans with an area of 1,145,079 Feddans. Of large properties over 50 Feddans, there were 11,293 and the area was 1,803,760 Feddans. The total number of properties in the hands of Egyptians was 2,385,797 with an acreage of 5,331,271 Feddans, the average per proprietor being 2·26 Feddans.* According to these figures the distribution of land is highly unsatisfactory. The number of middling properties is small. The bulk of the area is either in the hands of cultivators of tiny pieces of land or of large proprietors. The maximum area of cultivable land is estimated to be 7,100,000 Feddans and if the present rate of increase of population continues, the average per Fellah will dwindle to 1/39 Feddan in 1946-51* A Feddan is equal to 1·038050 acres.

The standard of living of the Fellah has hardly altered during thousands of years. His dwelling is a mud hut and his nutrition is of the coarsest kind. He suffers much on account of dirt and disease. Much of his inertia is due to malnutrition and ill-health.

The agricultural labourer in constant employment receives as wages about £ 1 Egyptian per month. The daily wages of seasonal workers are : for sowing of cotton 2 piasters for boys,

*Figures taken from "كتاب الاحصاء السنوي العام ١٩٣٥-١٩٣٤" (Annuaire Statisque 1934-35) page 356 published by وزارة المالية (Ministere des Finances) in مصلحة الاحصاء العموم Departement de la Statisque Generale), Le Caire.

3 to 5 piasters for men doing heavy work; for picking of cotton 2 piasters for boys; for mowing of wheat 4 piasters for men, for irrigation work 4 piasters for men, 2 piasters for boys; for job work the rate is 15 to 20 piasters per Feddan for irrigation and for cultivation 20 to 25 piasters per Feddan*. (A piaster is equal to 2.18 annas). These amounts do not differ much from the wages of similar workers in India.

The bulk of the population is illiterate. Out of a population of 14177864 persons in 1927 the figures for literates and illiterates were 1,670,895, and 12,506,969 respectively. The moral and material condition of the Egyptian population is the same as that of the Indian population and the problems that face statesmen in Egypt and India are of a similar nature, differing only in magnitude.

The Bedouin's economy has been overthrown by the advent of the internal combustion engine. The motor lorry and the aeroplane have taken the place of the camel and the horse. With the shrinkage in the demand for his products the Bedouin's income has dwindled. Pressure of circumstances is now forcing him to take to agriculture which he formerly regarded as quick death. Powerful foreign interests have started prospecting for oil and minerals. The Bedouins standard of living is extremely low.

The Netherlands East Indies show the same economic features as Egypt and India. The total population is 60·7 millions of which 59·1 millions are the natives or the people of the country, 24,000 Europeans, 1·2 million Chinese and 1,15,000 other non-indigenous Orientals. The bulk of the population is rural, only 3·7 millions live in the towns and municipalities taken together.

The occupational structure of the people comes out in the following figures:—In the production of raw materials there were 14·2 million native workers, in industry 2·1 millions, in transportation 2,90,000, in trade 1·09 millions, in the professions 1,50,000, in Government service (chiefly humble people in the service of villages) 4,92,000, and in other occupations 1·9 millions. The total number of native workers was 20, 279,642*. An analysis of the family income shows that very few families had 300 florins or more per annum. A florin is equal to at gold per 1s. 8d. British or U. S. A. $ 0·40.

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*"Die Laudwirts chaft im heutigen Aegyptes" by Dr. Nagy.

* Figures taken from "Volkstellung 1930"; Census of 1930 in the Netherlands Indies, Volume VIII.

A clue to the relative prosperity of the different races is given by the percentage of brick houses. The Europeans had 75·32, the Chinese 36·56, the Non-indigenous Orientals 44·61 and the people of the country only 4·01 per cent of brick houses.

The state of literacy may be judged from the following figures : the number of literates was 3,746,225 or 6·44% of the total population of the original inhabitants. Those able to write Dutch were 187,708 or 0·32 per hundred. There is no University in the Dutch East Indies. The number of indigenous students receiving instruction in technical and professional institutions of a University standard was 178, of whom 142 were studying Law and Medicine and only 36 Technical subjects. The Dutch have pursued the policy of keeping the people quiet, without progress, to prevent the growth of dangerous thoughts.*

The people live from hand to mouth. Failure of the rice crop undermines vitality which is low and the death rate increases in consequence. The general opinion is summed up by Furnivall as follows : "The natives grow in numbers and the other sections of the community, the European and the Chinese, in wealth." †

In delineating the economic condition of these populations, certain features common to all of them stand out prominently. All these masses are agricultural, pressing on the means of subsistence, with a low standard of living, whether one regards the matter from the angle of production or of consumption. In drawing up plans to raise the standard of living some would like to lay the main stress on increasing the productivity of agriculture. Now, it is true that the productivity of agriculture is low and that by the application of science, yields could be raised and costs lessened. But if the world trends are any guide to action, agriculture alone will not suffice to raise the standard of living. Resolute action must be taken in all branches of production if the goal is to raise these populations in material prosperity. In every country in which the average level of income has been rising, there is a decline in the percentage of population engaged in agriculture. This tendency is a world trend. It is observable industrially advanced countries like the U. S. A., Great Britain and Germany. In U. S. A. the percentage of working population engaged in agriculture, forestry and fishing fell from 53·8 in 1870 to 25·4 in 1935 ; in Great Britain from 14·8 in 1871 to 6·4 in 1931 and in Germany from 39·1 in 1882 to 20·4 in 1933. This trend is also noticeable

*Netherlands India by Furnivall, page 377.
† ,, ,, ,, ,, 404.

in poor countries like Portugal in which the fall was from 65 in 1890 to 57·5 in 1911 ; in Finland the downward movement was from 69·2 in 1910 to 63·4 in 1930 ; in Japan from 77·3 in 1876 to 50·4 in 1930. The downward trend is also marked in the wealthy, but still, according to the common view, mainly agricultural countries like Australia, from 442 in 1871 to 24·4 in 1933, Canada, from 48·3 in 1891 to 31·2 in 1931. The proportion engaged in primary production is lowest in the wealthiest countries, such as the U. S. A., New Zealand, Great Britain, Switzerland and the Netherlands and highest in the poor countries such as Bulgaria, Russia (as it was before the transformation brought about by the Soviets), India and Turkey.*

Economic progress thus inevitably involves (*i*) a decrease in the proportion of the population engaged in agriculture, (*ii*) an increase in the proportion engaged in industry, commerce transport and services of all kinds, (*iii*) an increase in income and (*iv*) a rise in the standard of living. If we wish to act against this trend, it means that we do not desire economic progress and that we are not anxious to raise the standard of living.

Gentlemen, I do not feel I have to advise what policy should be adopted for the populations in Africa and Asia. Our concern is with India and its relations with other countries, chiefly England. I am interested in agriculture and I feel strongly that by means of science we can increase the productiveness of our land, so that cultivation and pasture, which may be regarded as the two breasts of Mother India, may nourish her children abundantly. At present, both these breasts are meagre, shrunken, undeveloped. It is, therefore, a welcome sign that in the various plans agriculture occupies a prominent place. But we should not be under the illusion that the development of agriculture alone will lift the people of India on to a higher standard of living. Development of industry is necessary. This, however, will take time and should be undertaken in a cautious and prudent spirit. Three courses are open (1) laissez-faire or economic anarchy, (2) isolation or autarchy, and, (3) a system of planned economy. By experience we know that laissez-faire will not lead to industrialisation. Autarchy has limitations and dangers of its own. The third course remains *viz.* planned economy, a steady advance in establishing industries in a systematic manner. But the creation of an industry

* Article by A. G. B. Fisher in the 'Manchester School of Economic and Social Studies,' October, 1943.

in one country injures immediately and in the short period the welfare of those engaged in the same industry elsewhere. What should be done? The day is far off, perhaps thousands of years, when statesmen and their advisers will regard human welfare as of equal value everywhere. At the present day we cannot even assume that at least they will refrain from injuring each other. But it seems to me that if the aim is to increase prosperity, a little more of the international spirit which considers other people's woes as in some way reacting on your own welfare, will have to be cultivated, so that misunderstanding, conflict and poverty may be eliminated. I know that those who approach these questions in a catholic spirit and advocate the international way are at once stigmatised as "*Vaterlandslose Gesellen*" as Kaiser William II called the socialists but I feel that the co-operative, the international way will unite, the pursuit of pure self-interest will disunite human beings and will lead them from precipice to precipice. To avoid this relapse into barbarism, the method of consultation, understanding and agreement will have to be adopted. Now this means that time must be given to foreign interests to change over to some other line of production or to limit themselves to certain ranges or qualities by agreement. Concretely, in our case, I recommend a policy of exchange of ideas, pooling of information and agreement as to the line of advance in the process of industrialisation between the people of India and England. Any other course will diminish and not increase welfare. Perhaps professional opinion will be with me in this matter.

In the outside world, I hope that those who have the destiny of the world in their hands will also discard the conflict-producing, reactionary ideas and learn from experience that the ghosts of "Lebensraum" and "Co-prosperity" will periodically reappear if the management of the affairs of the Negro, the Fellah, the Bedouin, the Ryot and the Coolie is believed to be profitable. In answering his own question "From whence come wars and fightings among you?" St. James, by his simple words, shows that he had a better grasp of the real cause of war than any economist or statesman."

These considerations point the way to a trade treaty with Great Britain and also with other countries. If for the initial stages a demarcation of the market on the basis of grades or ranges as between the home and the foreign producers is established, the need for imposing tariff duties disappears and the Tariff Board may concentrate attention on question of efficient production only.

As regards ownership and operation of industries, the State will have to advance more and more in the direction of Etatisme or State Capitalism. Some industries the State might own and operate itself, others it might own but manage through Statutory Public Bodies and leave a portion, steadily decreasing, however, of the field to private enterprise. For appointment and promotion of the personnel required for these undertakings, the State will need independent and efficient Public Service Commissions. The general trend is towards State ownership and operation and we in India cannot stand apart. Moreover, I do not think it would be wise to complicate the pattern of Indian Society in which hitherto a sort of uniformity in the standard of living has prevailed. The State also will have to be different in structure, function and spirit.

In discussing the question of the standard of living I was chiefly thinking of peace but I cannot ignore the fact that war also is a periodic phenomenon. It lowers the standard of living, endangers security and sometimes destroys it altogether. Two wars have demonstrated the inability of India to wage war actively and autonomously, without industrialisation. In the first German war 1914-18, and also in the second German war, in which we are engaged, the Government of this country appealed to private individuals, by advertisements in newspapers, for field glasses and other optical instruments. Well, this was not heartening. One would have thought there was enough sand in the country for the manufacture of lenses to cope with all the "*Wehrmaechte*" of the world. With the "titanic eruptions of world power* on the northern and eastern borders of India, it would not be prudent to be blind again to the lessons of the past or the dangers of the future.

French statesmen are beginning to realise that it was a mistaken policy to leave undeveloped, French colonies, to confine industry to Metropolitan France and to depend upon a system of exchange of raw materials from the colonies against manufactured goods from France. With the loss of the north-eastern provinces, in which French industry is concentrated, the French capacity for resistance disappeared, Monsieur Pleven, now minister, and a few months ago, commissary for French colonies, speaking before the Consultative Assembly at Algiers on January 14, 1944, observed as follows :—

"Nous nous refusons d'autant plus à accepter comme axiome cette subordination simpliste d'un monde à un autre, que nous avons pu voir, depuis 1940 à

*Captain de Chair, M. P. in a speech in the House of Commons on April 21, 1944.

quelle faiblesse et à quelle dépendance son application sur une échelle moindre, dans les relations entre la France et son Empire, avait conduit-la capacité de resistance de la France et celle de l' empire ; nous avons appris de l' U. R. S. S. une grande leçon, celle que son invulnérabilité n'avait pas été due seulement à l'héroïsme de ses armées, au patriotisme de ses citoyens, mais au fait que, des hommes d' Etat de génie avaient dispersé jusque dans ses plus lointains territoires, une partie de ses moyens de production" * French statesmen are taking steps to industrialise French Africa and to disperse their productive power over their possessions.

In planning the localisation of industry, for us also there is a lesson from the example of Russia. Like her, our country is vast in size. Its productive power should not be concentrated at a few places, easy targets for a few bombing raids. Our industrial establishments should be scattered right over the surface of the country in rural areas, thereby insuring employment for the rural population in their homes and securing the safety of the industrial power of the State as well.

Gentlemen, Heaven forfend that there should be another catastrophe but if the constituent members of the British Empire develop their industrial and moral strength, work together in a spirit of good-will and on the basis of equality in the years of peace, the sorry spectacle will not be repeated of "*la justice sans force*" being set upon by "*la force sans justice.*"

Gentlemen ; I thank you.

* "We refuse all the more to accept as axiomatic this simplified subordination of one continent to another, as we have been able to see, since **1940**, to what weakness and dependence its application on a smaller scale, *viz* in the relations between France and her Empire, has reduced the resistance power of France and her Empire ; we have learned a great lesson from the U. S. S. R., the lesson that her invulnerability has been due not only to the heroism of her army, to the patriotism of her citizens but also to the fact that her statesmen of genius had dispersed a portion of her productive power to her most distant territories," France-Orient, Mars-Avril, 1944.

DISCUSSIONS

[It is regretted that all the speakers who took part in discussions have not sent in the summaries of their speeches and, therefore, the records of discussions are incomplete.—*Mg. Ed.*]

I

DISCUSSION ON "INDIA AND INTERNATIONAL ECONOMIC CO-OPERATION"

S. M. Idris :

I had no intention to intervene in to-day's discussions, but your introductory remarks have prompted me to do so. You have rightly emphasised the need for international co-operation and I agree with you that there is a crying need for international good-will. But unfortunately India is neither a nation nor a state, and for her, therefore, to talk of international good-will and co-operation, is meaningless. More than once, we have proferred our hand of friendship to other nations, but it has always been rejected. We may again make a gesture of co-operation, but in this world of power politics, no one cares to listen to a politically weak country. What we need is strength and self-respect. If we become strong and self-respecting, politically strong countries will also respect us. Situated as India is, international co-operation is unthinkable for her. Co-operation between strong and weak peoples is tantamount to co-operation between wolves and sheep.

I have read with pain the deliberations of the Bretton Woods Conference, and let me say, I am profoundly ashamed of India's participation in that conference. As self-respecting people we should not behave like a lackey to a master and as camp followers of the British Government.

Mr. President, as a Muslim, as an Indian and as a gentleman, I am for international co-operation, provided it is compatible with our self-respect.

S. V. Kogekar (Poona) :

In the nineteenth century, international economic Co-operation found expression in the policy of international free trade. It was believed that unrestricted exchange between different nations on the lines indicated by the comparative costs of production would ensure the best utilization of the world's economic resources and a rising standard of living. However, it has been found that the principle of comparative costs has no application in a world of unequal economic development and unequal political status between different countries. The world's resources have not been fully utilized, the standard of living of vast masses of people has not risen to a civilized minimum and the industrially advanced countries are finding it increasingly difficult to maintain their existing standard of living. It is therefore necessary to find out a new way of international economic cooperation directed mainly to the development of the backward countries and thus effect the best utilization of the available economic resources of the world.

But that is a matter which involves a transformation of the existing economic structure in the industrially advanced countries. In place of the present production of consumption goods meant for the markets in the backward countries of the world, they will have to produce capital goods required for the industrialization of those countries, and consumers goods of a different kind in the light of the developing productive capacity of those countries This transformation in the productive structure of the advanced industrial countries is bound to involve some sacrifice on their part. The question is whether they are prepared to undergo that sacrifice on the basis of rational agreement.

Mention may be made of the sacrifice imposed on countries like India when the industrial development of the more advanced countries of today was taking place in the 18th and 19th centuries. The cost of Britain's industrialization for instance was largely borne by India in terms of the disappearance of her handicrafts and the pressure of her population on the land. That cost was imposed on her not on the basis of mutual agreement between the two countries but at the point of the bayonet.

It is true that in the long run it will pay the industrially advanced countries to help in the development of the backward countries. Such sacrifices as that implies will therefore be worth incurring. They can, besides, be minimised and

planned in advance if the countries proceed on the basis of a rational agreement.

The crux of the problem of international economic cooperation in the future is, therefore, the preparedness of the advanced industrial countries to bring about a transformation in their own economic structures so as to help the backward countries to industrialize. Will they be so prepared? That is doubtful because the economic structures in these countries are controlled by individuals or groups with a view to secure private profit. Individuals are prone to take a short run view of things as indicated by the Keynesian dictum that 'in the long run we are all dead'. They will not, therefore, be prepared to incur the cost of such a transformation in terms of a disturbance of their vested interests. The future of international economic cooperation, therefore, hangs on a suitable change in the controlling organs of the economic structures in the more advanced countries of the world.

H. Venkatasubbiah :

Some considerations which may be described as the postulates of international economic cooperation arise from any discussion of the subject. Firstly, economic philosophy has a fundamental bearing on such cooperation. Different nations of the world have at present organised their production and distribution under different systems. We have at the one extreme a strongly individualistic economy like that of the U. S. and at another a highly collectivist economy like that of the U. S. S. R. with various middle forms of free enterprise and interventionism in other countries. The experience of the inter-war years—especially the spectacular disintegration of the two World Economic Conferences—clearly demonstrated the impossibility of forging any real cooperation in this medley of widely divergent economic policies engendered by the different economic systems in different countries. Hence, unless, as a preliminary, there is a substantial measure of agreement on the dominant economic philosophy the world as a whole will adopt—on whether individualism or collectivism will preponderate—it may not be possible to build any enduring cooperation. Secondly, the class structure of society has an important bearing on international economic cooperation. Under the existing capitalistic dispensation it is the inevitable tendency for the owners of the means of production and the working classes in different countries to align themselves parallelly and into mutually hostile camps. When economic classes

out across national boundaries and form international alliances like this they can always foil agreements between different nations as political units, agreements which may be of advantage to the participating nations as a whole but may revolt against the capitalist or the labour class within any nation. Thus economic cooperation under capitalism which does not make adequate provision for counteracting the pull of sectional interests which results from the class structure of society cannot be strong and enduring. Thirdly, regional cooperative arrangements like pan-Americanism, United States of Europe, pan-Islamic, south-east Asian, far eastern and pacific federations are essentially opposed to ultimate international economic cooperation. It is one thing to centrally organise economic cooperation and then proceed to regional exemptions or supplementary arrangements, but a different thing to confederate regional cooperative *blocs* so to say. If, as is said, world economy is one and indivisible, the latter, which is the logical culmination of regionalism, becomes only a projection of national political and economic rivalries on a regional plane and must conflict with genuine international economic cooperation. It would thus appear that if such cooperation is to last we should proceed from the concept of a world economy to that of regional balance and not *vice versa.*

II

DISCUSSION ON TRANSITION FROM WAR TO PEACE ECONOMY

Anwar-ul-Hasan :

I have so far been able to make out three kinds of crises: (1) the ordinary crisis, (2) the currency crisis, (3) the war crisis.

(1) This occurs as the result of maladjustment between production and consumption, between supply and demand. If there is overproduction there is glutting of the market. Prices fall. Industry, commerce and banking all suffer losses. After a short period of transition economic organisation adjusts itself to the new conditions.

(2) This is due to the maladjustment between the supply of money to the demand for it mainly on account of inflation or deflation of currency. The crisis (1930), referred to above, was of this nature. During the last war most of the belliger-

ent countries had inflated their paper currencies, with the result that the purchasing power of their currencies had fallen very low. After the war was over, England and other countries tried to restore the gold standard. They gave old high value to their currencies Their puchasing power rose and the price level went down. This brought about a depression of industry. This depression would have lasted for a long period until the costs of production had been cut down and economic organisation had made the necessary adjustment. Happily these countries gave up the attempt to maintain the Gold Standard and the depression ended.

(3) Wars introduce abnormal conditions. After they are over there is a transition from war to peace economy. Normal conditions are restored in due course of time.

Great Britain, I understand, has avoided, this time inflation of currency and therefore transition from war to peace economy will be simple, but India has not escaped inflation of currency and hence in her case the problem will be two-fold :

(1) Transition from war to peace economy,

(2) Transition from inflation to deflation.

Depression may be acute and painful. This point deserves the attention of those, who have been entrusted with the work of post-war reconstruction.

S. V. Ayyar :

"I was very much interested in the many suggestions that have been made at this conference in the matter of the transition from war to peace. It will be generally agreed that this is a question which has many ramifications in many directions, but there is one thing fundamental to any consideration of this question—the role that the government can and must play in helping to make the transition easy and valuable. Mr. Haricharan Ghosh laid emphasis on the importance of a National government in this country with characteristic emotional idealism. But I have not been able to understand the flirtations of my old friend Professor Vakil with the government of India. He is evidently a new convert to the view that we can get on with planning and reconstruction without worrying about the nature of the central government. Even the authors of the Bombay Plan—and Sir Ardeshir Dalal is a signatory—declared that a National government is a necessary preliminary for any drive towards planning. We have no

quarrel with individual members of the government, but it must be accepted that the government as a whole is not a government that commands the confidence of India's people—either in the constitutional or any sense. It is not possible for the members of the Viceroy's Council to have that dynamic force that a responsible popular government can be expected to have at times of national crises. Our criticism must therefore stand, and in spite of Professor Vakil's special pleading to give time to the new Department of Sir Ardeshir to get going, we must realise that if a new drive is necessary, there must be a fundamental change not only in constitutional status, but in the outlook in the government. It is strange that our friend Professor Vakil should lose sight of the wood in the trees.

Another valued friend, Professor Gyan Chand said in his paper 'Shadows of the Peace':

> The war being a crisis in economic and social relations is throwing into bold relief the alignment of forces, and the hope of solving the problems of transition from the war to peace is the problem of *readjustment of these forces.* The real question is a question of balance of power, and the present prospect is that our transition would mean elegantly comouflaged plans for not disturbing the Stalin quo materially.

Frankly, it is difficult to understand what exactly Dr. Gyan Chand wants. Responsible thinkers must not run away with the idea that human nature would change fundamentally or quickly, and revolutionary idealism while flattering to our sense of adaptability to changing circumstances may yet prove a dangerous experiment in India. We must not speak with many minds and any scheme of social or economic amelioration must take account of historical tradition, and social peace. Evolution is our only safe guide in social matters."

K. N. Bhattacharya :

In the course of the presentation of his paper on "Will India Face a Slump—an aspect in transition economy," Mr. K. N. Bhattacharya of Santiniketan, Visva-Bharati, suggested that unless the present level of employment, income and production is maintained in the immediate post-war years, India is sure to face a slump from which recovery would be difficult. To avoid

India being overtaken by a slump, the Government should undertake an over-all planning in industries, agriculture, and transport. To finance the plan, extensive borrowing should be undertaken. Taxation however should be reduced until the level of income increases, and agricultural price-parity in relation to industrial prices should be maintained.

Dr. R. K. Mukherjee supported the proposal for agricultural price stabilization.

In the course of the discussion on International Co operation, Mr. K. N. Bhattacharya suggested that any collaboration on the part of India in International economic affairs would be possible only to the extent it would promote India's own economic progress. Any agreement which hinders India's own rate of economic progress should be thoroughly unacceptable. Future trade agreements, settlement of war-debts, repayment of Sterling accumulation, exchange parity and export of raw materials should therefore be decided in the light of the issue how far they are compatible with India's economic development.

S. M. Idris :

I have two points of criticism to offer, one against Principal Shenoy's paper, and the other against what has just now been said by Professor Vakil.

Principal Shenoy has started with an assumption and has drawn from it certain conclusions. That assumption, I submit, is false, and the conclusions, flowing as they do from a false assumption, therefore, fall through. Mr. President, we are here to tackle practical problems and are not out to indulge in intellectual hair-splitting. Principal Shenoy's approach to the problem is unrealistic and it would have been as well if he had not written his paper on the basis of a false assumption.

As regards Professor Vakil's remarks, we, as students of economics, are expected to make a scientific approach to such subjects. Every member of this learned assembly knows what science is and what a scientific approach means. In a science we draw conclusions from the observation of facts. We judge a tree by its fruit. Making a scientific approach to the two hundred years of British administration in this country, I have come to the inevitable conclusion that the Government of India as at present constituted and planning are two incongruents—they go ill together. We listened to-day to an august member of the Viceroy's Executive Council. His speech, Sir, has left me cold.

C. W. B. Zacharias:

The transitional problem consists in the liquidation of the war effort, which includes the demobilization of the men, the reconversion of industry and the restoration of the scale of values appropriate to peace-time This problem in unavoidable and need not be confused with post-war planning or with the question of boom or slump. The question of boom or slump relates to the general environment in which the transition has to be effected. This general environment is important. If we can liquidate the war effort without invoking either an inflationary or a deflationary movement we can hope to escape the major calamities of the transition.

To keep the economy on an even keel and stabilize at the existing level, avoiding both inflation and deflation, what is needed is the maintenance of aggregate expenditure (on consumption and on investment) at a constant level. The level to be maintained will be the level reached in the final year of the war. This much is indicated by the Keynsian theory of effective demand. Assuming this year to be the final year of the war, defence expenditure of the Government, taking all relevant figures into account, is a little over 700 crores. With the liquidation of the war effort this expenditure will cause and the question is whether the growth of private expenditure in the immediate post-war period will offset the reduction in Government expenditure.

There is every reason to think that there will be a phenomenal increase in private expenditure with the return of peace. The funds saved up by corporations and individuals during the war period will find their destination in consumption or investment. These funds consist of corporation reserve and depreciation funds, hoarded currency, idle bank balances, tax refunds, Defence Savings Banks, etc. In addition to these there will also be a larger margin available out of current income for increased private expenditure. This on the assumption that the high level of taxation is maintained but that the tendency to hoarding and maintaining idle bank balances disappears with the cessation of hostilities and the stoppage of Government borrowing. This margin is roughly indicated by the annual subcriptions to war loans, the annual growth of bank deposits and the annual hoarding of currency. It should be the duty of Government to make quantitative estimates of these funds and see how far they can be expected to take the place of Government expenditure.

The existence of these funds will not by itself lead to

increased private expenditure. There are two circumstances detrimental to it, *viz.*, an expectation of a future fall of prices and a tendency to import large quantities of consumption goods from abroad. The first should be prevented by the public announcement by the Government of its policy to maintain the price level constant, and the second by a rigid control of imports.

If quantitatively the growth of private expenditure appears to be less than the reduction in defence expenditure Government expenditure must be utilized to make up the difference. This should be the policy of Government in the transitional period. The operative principle should be to consider Government activity as subservient to private activity and Government expenditure as subsidiary to private expenditure.

III

DISCUSSION ON SOCIAL SECURITY

H. R. Batheja :

Mr. H. R. Batheja taking part in the discussion on the problems of Social Security in India observed that the discussion of the subject had been carried on in a rarefied atmosphere of unreality as the basic conditions of Social Security *viz.*, adequate productivity, full employment and proper administrative machinery were lacking in India. While he was not opposed to the ideals of Social Security for all, he maintained there must be an adequate pool to draw from before we can distribute it and there must be reasonable employment before we can remedy the insecurity of employment. These prerequisites did not exist, at least, amongst the agriculturists of India who form the overwhelming majority of the Indian population. Any scheme of Social Security for industrial workers—the aristocrats of Indian Labour—would be paid for neither by the industrial employer nor by the employee but, by the consumer and the main tax-payer, who in the case of India is the agriculturist, so that it would aggravate the maldistribution of wealth between the town and the country. The industrialist will include his share of the cost of social insurance in his cost of production when applying for protection at the expense of the consumer—the agriculturists. A one-sided or partial scheme of Social Security as contemplated by Mr. Adarkar will there-

fore only aggravate inequality like the high salaries of government officials. A comprehensive scheme must therefore include the agriculturist, but can we afford that, except in small doses like Life or Sickness insurance, when even according to the Bombay Plan our national income per capita is below the minimum standard for bare existence? Is it worthwhile scraping the indigenous social insurance machinery provided by the joint family—the caste and the community in order to provide for a few individuals working in factories who themselves are younger members of agricultural joint families?

A. D. Mazumdar:

I intend to say a few words on the rational and philosophy of "Social security".

I have known so far two distinct approaches to the question of social security. These are, number one, social security as a matter of charity, and number two, social security as a matter of right.

The first approach, which is also the older one historically speaking, looks upon social security as a sort of "Charity". The poor are too poor. So the rich, those that can afford to, must contribute something in order to make the lives of the destitutes more tolerable. This view is humanitarian, quite distinct from the second which raises a question of social philosophy.

It says that the poor has a "Right" to a minimum standard of living which must be guaranteed to them by the state. The rich, when they contribute to the social security fund, are not doing an act of charity. No, they are bound so to contribute in order to maintain the foundations of their prosperity. And the poor, in their turn, when they receive the grants from the social security fund, are not receiving a charity, but a payment which they deserve to get from society by virtue of their socially necessary labours.

These two approaches to the question of social security, however different superficially judged, do yet belong to the same family of social ideologies, namely, bourgeois thought. I shall place before you a more fundamentally different philosophy, namely the proletarian social ideology: the proletarian approach to the question of "Social security".

According to this view, social security is neither charity nor a right.

It is not charity, because those who give, do not give what *rightfully* belongs to them. And it is not a right, because those who receive do not receive *all* that belongs to them.

To make things clear, I must first tell you that our society is divided into two fundamentally distinct classes--the non-toiling and exploiting "Bhadralog" class, and the toiling but exploited "Chhotolog" class. These are the terms most appropriately corresponding to the terms "Bourgeoisie" and "Proletariat" of Karl Marx, applied to the setting of Indian society.

Now, the incomes of the Chhotolog classes consist of two parts—one, a positive part, namely what they actually produce, and the other, a negative part, namely, what they are deprived of by the non-toiling Bhadralog classes. The incomes of the Bhadralog classes, on the other hand, consist of what they receive from the Chhotolog classes by virtue of their expropriatory rights of property.

The phenomenon of social security arises from the fact that the natural working of the system of exploitation leads to unemployment and extreme destitution. This gives rise to three things of special consequence to the Bhadralog classes. Firstly, it is a standing disgrace to the prevailing order of Society. Secondly, it leads to much loss of labour power. Thirdly, it is a danger to the social structure, the danger of revolution. Confronted with this situation, the Bhadralog classes conjure their philosophies of social security.

Social security, therefore, intends to give back to the poor toilers a part of what the rich non-toilers normally expropriate from them in order to give a more decent appearance to the present system of Society, and, secondly, to obviate the danger of political revolution. In so far as social security plans to secure the more even distribution of employment it also prevents some amount of waste of human labour and thereby serves to augment the riches of the "Bhadralogs."

In any case, social security is neither a matter of charity nor a matter of right. It arises out of the collective self-interest of the Bhadralog classes, while the "rights" of the toiler far outstrip the bounds of the most liberal system of social security. The real interest of the toilers demand, therefore, not social security but Socialism, complete overthrow of the expropriatory rights of the property-owning classes.

R. Visweswar Rao :

Prof. R. Visweswar Rao, who read a paper on Social Security, observed that the demand for security has become the heart-felt peace aim of the mass of the people in all countries. The main aim of Social Security Plans should be to provide security of income to the individual so that he may be free from want. According to him, wants arise because of the absence of sources of livelihood, interruption or cessation of work or inability to keep oneself within the regular income. He observed that the problem of poverty and equitable distribution of national income must also be simultaneously considered. Social Security Plans for India, he observed, include removal of unemployment, provision for temporary employment, sickness insurance, old-age pensions, balanced population, increased standard of living, etc. He summarised the salient features of the Beveridge Plan and stated that we have to evolve Social Security Plans now so that maximum social welfare is promoted. To the question as to whether India can adopt a Beveridge he observed that the deteriorating condition of the lower classes of people, the growth of the socialistic spirit and the schemes evolved in various countries for social security have made us realize that we should also do something in this direction. No country, he said, can remain secluded and must march with the spirit of the times.

S. K. Rudra :

I presume that it is Utopian to expect the evolution of an economic system that would provide full-time employment, at a fair rate of wage, throughout the working life of the employable section of the community, so as to meet the exigencies of life to which the working population are exposed. Such fair rate of wage to the employables, implies the provision of a surplus, over and above the average cost of living, commensurate with a decent standard of living prevalent in the community, it would need to be collected and funded, by a widespread saving system, and life and social insurance organisation in the community. Obviously, the evolution of such an economic system in India, was a matter of very peculiar difficulty, due to the fact that the basic industry in this country was agriculture, which was so greatly dependent upon natural and climatic conditions and thus exposed to seasonal and cyclical fluctuations.

Another important factor for consideration was the extreme poverty of the country. This would militate again having full-range social security provision as had been evolved, over a series of decades, in Germany, Great Britain and some other wealthy and advanced nations of the world.

It was, therefore, desirable to inaugurate schemes of social security by degrees. Already important work has been accomplished, with great ability and industry, in the Labour Department of the Government of India covering certain aspects of the life of the industrial worker. The problem, however, was not merely of the industrial worker, but implied the provision of social security to the community, the vast bulk of whom lived in rural India. It was necessary in the first instance that the field should be carefully studied and the incidence of cost of inaugurating various types of social security provision be carefully assessed. This work could best be done by Statisticians and Actuaries. The Economist could provide the policies on which the social security structure could be founded and constructed. While not underestimating the difficulty of the position, I feel that there is need for not only examining the situation, but also initiating a scheme of social security for the community at large.

In this matter, it was essential to begin with changing attitude of mind both of Government as well as of the public. The complacency in respect to this question was not warranted by the strain and stress of circumstances in the country.

I would select two types of exigencies of life, which in my judgment, should be forthwith examined and provided for by the State, either on a contributory basis or a non-contributory basis.

The first exigency that I would commend for immediate consideration is the matter of the institution of an old age pensions scheme. It is no longer correct that we should assume, as is readily assumed, both in Government circles and indeed, in the public at large, that the aged in the community are well looked after by their respective families. No doubt, like as in China, so in this country, we have great respect for the aged and high regard for our parents and care for them as well as we can, through the organization of our joint family system. But, it is evident from various observations that, the structure of this ancient institution in this country, which has continued for centuries, is slowly giving way against modern notions of individualism, as well as the combined forces of economic distress in the country. This probably is more in evidence in our urban centres than in our rural areas. I,

therefore, suggest that the State should institute an Old Age Pension Scheme on a "Non-test" and a "Non-contributory" basis. It seems to me that old people, who have, during the workable period of their lives, earned their living, should be entitled to a pension, irrespective of a "Means Test". In old age, they have a claim on the community. No nation can be regarded as a self-respecting nation that does not make adequate provision for the aged in their midst. I also feel that the pension should be a non-contributory one for reasons already indicated. I suggest that the age for qualifying for Old Age Pension schemes in this country should be 55 years, for both sexes. I admit that in other countries, the age limit was high to begin with and then lowered by degrees, and in certain instances is yet higher than the age I propose. But this is mainly due to the fact that the average age of the population as a whole, is very low and the expectancy of life of the population of age-groups of 55 and above, is small; and also as the magnitude of the numbers involved would be fractional compared to the population as a whole. This then is my first suggestion.

It will be noted that I make no distinction of sex in the matter of the receipt of this Old Age Pension.

I also suggest that the award of old age pension should be personal and not institutional. Namely, it should not be required of a recipient to live in a boarding house or an Old Age Pension Home.

Mr. Adarkar has already informed us that the institution of Old Age Pension scheme would be one of the cheapest insurance plans that we could build in the post-war period.

The next exigency that I would wish to insure against in the country, would be the matter of invalidity. We know that there are persons who, through no fault of their own, but either due to inborn incapacity or accident or some other calamity, become a permanent liability on their families or their friends or on public charity. They are unemployable due to some mental or physical defect. I am of view that persons belonging to this category of the permanently invalid, should be treated for the distribution of an invalid pension.

I suggest that it should be placed upon a "Means Test" basis. Families or individuals that are above a particular income range, should not be included in the scheme.

I also feel that this invalidity pension scheme should be built up on a contributory basis. I suggest this because it will not be easy, at the present stage, due to lack of data and study

of the position, to indicate the cost that would be involved in implementing this scheme. We have to keep in mind the financial limitations, both of the Central as well as of the Provincial Governments and our local bodies. Contribution would help the finances and would eliminate the element of pauperisation from the mind of the recipient.

I am also of opinion that the provision of this particular type of social relief should not be personal, but should be institutional. Experience in Germany particularly indicates that this type of social relief is both economical to the community, as well as more beneficial to the recipients if provided institutionally rather than if distributed personally. Our experience, I feel certain, will lead us to the same conclusion.

In respect to the burden imposed by the carrying out of these two schemes, I wish to indicate that it will really mean the transference of this burden from shoulders that are unable to meet it to those that would be better able to support it. It will mean no fresh burden to the community as a whole, but would imply transfer of wealth from one section of the community presumably better off, to another section of the community assessed to be worse off. The point is that we must realise that both the aged as well as the infirm are actually living now in the community. They are being fed, housed and clothed. They are there in the social system, an unproductive liability on the community. By inaugurating the Old Age and Invalidity Pensions Schemes, we are only systematizing and placing on a scientific basis, the meeting of social exigency that is already borne by the community. I feel that the schemes, by receiving due contribution from the Centre, Provinces and the Municipalities or Corporations, and in respect to the Invalidity Scheme, contribution from the recipients before they become victims, as well as by the drafting of public charities, would be a burden that could be borne by the nation.

I would make pointed reference to the vast amount of sums that are spent by the people in support of various types of religious charities. These are not small sums, taking in the aggregate. If we could educate those in control of our religious institutions, I think much of such assistance could be diverted on rational lines for meeting the needs of the community specially of the aged and the infirm.

V. Sundararajan :

We fall too easily victims to the spell of catch-phrases from the West. Social Security is the latest. It means the provision of a minimum standard of living for all in the community. In the highly industrialised societies of the West, want, as Beveridge has said, is a needless scandal. National production has increased enormously and the problem is a question of distribution and consumption.

Can we in India, think of a plan of social security ? Not yet on the scale proposed for Britain by Beveridge.

Freedom from want is the basis of all freedoms and must be secured for every one. Food is the most elemental need of human existence. A large section of India's population has always lived on the starvation level as borne out by official and non-official investigations. Prof. R. Mukerjea in 1938 estimated that on the basis of a minimum dietary requirement there was no home-grown food for 48 millions of India's population. Freedom from want would mean firstly the provision of adequate and nourishing food for all.

Beveridge has said that whatever be the level of the national income, high or low, social security plan can be adopted. But in India the problem is mainly that of increasing the size of the cake *i.e.*, productivity per head.

Nevertheless, a beginning can be made in respect of industrial labour. And as you are all well aware of the fact the Government of India have set up a Labour Investigation Committee to make a factual survey of existing conditions in industries in India which would serve as a basis for a scheme of social security for industrial labour.

IV

DISCUSSION ON ECONOMIC PLANNING

Dr. M. S. Adiseshiah, M.A., Ph.D. :

The term planning has been used in this conference in a very loose and woolly manner. Planning carries with it a certain social analysis and a certain social philosophy. Planning is thus their inevitable and accompanying technique. But the word planning is being used here and elsewhere in India to refer to what should rightly be called schemes of Economic

Development. These schemes are very important and interesting but they bear no relation at all to what is technically called a Planned society. I am now, however, straying on to grounds with which as a student of economics I am not very familiar. I would therefore confine my remarks to two issues : first some of the theoretical problems a planned society raises and second some of the problems of principles that the schemes of Economic Development for post-war India—more familiarly known as the Bombay Plan,the People's Plan and the Government Plan etc.,—raise.

Against Planning in the real and only sense, conceived as the extension of state control over the whole economy and decision of the state of the whole budget of production, as the technique of a certain social philosophy, three crucial objections have been urged The first is the technical rationalism characteristic of the capitalistic system. But it can be seen that the Rational Economic calculus that is supposed to distinguish the free competitive equilibrium, even when not distorted by imperfect competition represents a harmony between producers and consumers effective demand and not—what is really of social significance - , an identity between the needs of producers and consumers. The second issue raised is that private property and the unequal distribution of resources as between the various members of the community, provides both the incentive to efficiency and the motive for the accumulation of savings. But the economic wastes involved must be set against the incentive consideration, and as for the problem of capital accumulation, it is now recognised that the existence of unemployed resources which always accompanies the capitalist economy, is itself in the nature of savings : so that till a state of full employment is reached, every act of investment creates its own savings. The third consideration urged against planning is that in place of rational calculation and rational movement of resources that the hidden hand of competition ensures, vested and personal interests will become dominant. Now apart from the rationality issue which I have already referred to, the checks and counter-checks which a planned system provides, will obviate this so-called predominance of personal interests. What this amounts to is this. That even if the Calculus problem is resolved, it will not, in fact, be carried out because of the vested interests of wage earners. But at this point scientific discussion ceases and the realm of prophecy entered into. Over against all this, Planning ensures large scale survey and large scale control, greater foresight in time, greater consciousness of causal sequence and the advantages of the experimental methods.

Above all, it is an insurance against uncertainties, and instabilities of unplanned production.

Turning to India, there are certain so-called principles of the schemes for the Economic Development of the land which seem to me to be taken for granted. The correlation between the National Income and the per capita income demands more careful study and investigation. I would like to draw the attention of the conference to underlying assumptions of this correlation, which have so far not been examined. The capital ratio is another factor which does not seem to be receiving as much attention as it should. We know from the experience of another country that despite its large labour resources as in our case, a low capital ratio such as that we seem to be moving towards involved stoppage of work in the middle of the process of production and a fairly wide revision of estimates that were originally made. Further while the importance of Consumers Goods industries in the immediate present is recognised, the provision actually made for production and distribution of such goods seems to be entirely inadequate. Here again there are valuable lessons to be learnt from another country which embarked on such a process of industrialisation, with inadequate provision for consumers goods production. It has to be remembered that in an expanding wage and income structure which industrialisation will involve the increased demand for consumer's goods is likely to be of a different magnitude that is experienced and envisaged in times like the present. And yet even the present provision seems to be in danger. Next, the interrelation between industrialisation and large scale agricultural reconstruction, in terms of primary, secondary and tertiary occupations and the issues they will raise, need more careful examination than they have been given hitherto. Lastly, I would like to mention the very important element of unreliability introduced into all these estimates by such reliance as there seems to be, on external finance. Even if our expectations come true, the inflationary implications of such reliance have not been fairly faced.

S. V. Ayyar:

"Criticisms have been levelled against the Bombay Plan, against the People's Plan and plea for a Communist plan has also been ventilated by a young friend. I said on the opening day of the Conference in the discussion on the question of the transition from War to Peace Economy that the Government

of India should be a real National Government in the full sense of the term full of new life and ideals for the glory of India's future—economic and otherwise. No planning is worth much if it is doled out by a government saddled with conflicting loyalties. It also appears to me that in a country where we should have a production drive as a fundamental necessity, it is futile and irresponsible to talk glibly of communistic experiments without regard to existing social conditions in India. It is equally futile to think of so-called priorities as between Agriculture and Industry. Sir Sri Ram's contribution to the discussion on Planning was extremely sober and I do feel that the Bombay Plan does hold the field as a bold practical vision for the economic development of India though purists may nibble at some of the details for financing the scheme for a 15 years' development. We must get going and not procrastinate. It will be a long time before India's government or people get ready for communism and responsible economic thought must not antagonise capital or be indifferent to the nature and functions of Government in big schemes for the economic betterment of India. We must back the Bombay Plan and even if a national government does not materialise,—though this is fundamental—the drive to increase production in Agriculture and industry must go on. Private capitalism must go a long road in this country before a case can be made out for State capitalism of the Russian type."

Dr. R. Balakrishna :

A study of the plans for the economic development of India has two possible methods of approach. We can either enunciate the principles on which an economic plan can be drawn up or make a critical study of some of the existing plans incidentally evolving the correct principles of planning. I wish to follow the latter method as we have already with us two important documents, namely the People's Plan and the Bombay Plan.

The Bombay Plan is more a statement of aims than a working model. What India needs is a working model ready for immediate application. The starting point of these plans is the national and per capita incomes which according to their aim should be trebled. A more scientific approach is to assess the actual and potential resources of the country on the basis of which further development could be estimated. Sufficient research in this direction seems to be absent and hence the plans lack an objective approach. No realistic plan can proceed

on assumptions on such fundamentals. Besides the different phases of the plan appear disjointed and therefore do not present the appearance of an integrated scheme each of whose sections is an organic part of the rest. The development of each of the phases should be studied according to their appropriate time sequence and merged with each other.

There is also a large degree of arbitrariness in pitching aims and fixing proportions for the development of different economic activities. The proportions would depend greatly on the potentialities of each country. The resulting pattern of industrial structure can be varied only within limits and hence aims and proportions should have a bearing on economic potentialities.

Planning does not mean merely a reorientation of past effort. Neither can it be worked out 'in vacuo' assuming static conditions. The only dynamic factor taken into consideration in the plans is the growth of population. But there are others also which have to be reckoned with. The industrial readjustments during the transitional period and their consequential deadweights have to be merged with long range plans. Or equally great importance is the probable changes in the composition and the direction of international trade in the post-war period. The pattern of post-war world economy and the type of Indian adjustment are some of the dynamic factors which should influence the technique of the planners. Thirdly, the rates of maturity of the different phases of the plan have not been correctly estimated and dovetailed.

The Bombay Plan has very little to say on the methods and technique of production to achieve their objectives. The scarce and abundant factors in the country and the optimum proportions in which they could be combined have not been indicated. The method of economic disposal of excessive output in any particular direction resulting from an approximation to optimum production has not been suggested. The plan also steers clear of all difficulties such as the delimitation of public and private sectors, the scope of small-scale industries and the extent of healthy State intervention.

The People's Plan in emphasising the importance of developing agriculture for increasing the purchasing power of the community is unwittingly advocating the maintenance of the present status quo. The present proportion of agricultural occupation is too high involving underemployment. With scientific agriculture a larger volume of produce could be secured with a smaller proportion of agricultural population. Their suggestion of a government assurance of 3 per cent on privately

invested industrial capital would perpetuate the old guarantee system in Indian Railways, with its lack of incentive and consequent inefficiency. Their idea of reinvestment of earnings in industry lacks scientific imagination. With low prices and a 3 per cent guarantee there will not be a sufficient margin for reinvestment.

In conclusion it may be said that plans can only broadly specify aims. But they should be more definite in their assessment of material resources and the methods and technique to be employed for their exploitation. The interrelation of the various parts of the plan should be correctly judged and carefully correlated.

H. R. Batheja:

Mr. H. R. Batheja taking part in the discussion observed that many of the criticisms levelled against the Government and Bombay Plans were besides the mark as these were not plans, in the Russian technical sense, of a socialist or planned economy which dispenses with the price mechanism. They are essentially practical schemes of accelerated industrial and agricultural development and have much to commend them in the present state of our political and economic backwardness and statistical blackouts. The Bombay Plan is practically an insolvency statement of India showing our minimum requirements in the matter of food, clothing, housing, education, medical relief etc. and our present lack of resources to meet them. In this respect, it is valuable and thought-provoking. It further seeks to suggest the means to increase our national income but neither it nor the Government Plan tackle adequately the problem of mass unemployment and underemployment of agricultural India. Any increased use of machinery and technological improvements will only aggravate unemployment to the extent of rationalisation achieved. Prof. Thomas has pointed out that the new fertiliser factory will not employ more than 2000 men. The problem of mass agricultural unemployment will therefore still remain and will not be solved by plans which assume Indian economy to be any thing but an insolvent economy which either requires intensive work in the villages as contemplated by Mahatma Gandhi or by International Economic Cooperation directed to derelict areas of the world as was done in England between the two world wars. Therefore besides the national and predominantly industrial approach contemplated by the Government and Bombay plans an international and agricultural emphasis is needed. It is of the

utmost importance to raise the morale or spirit of the Indian agriculturist as the Gandhian Scheme does. An army does not win victories with supplies only and on the economic front something more than capital, machinery etc. is needed. Man—the worker—himself should be made the centre of all economic planning.

S. M. Idris :

There are three questions that we have to consider in connection with Economic Planning. First: Is planning desirable for India? Second: What are the conditions for the successful execution of a plan? And third: What is the best plan for India?

As regards the desirability of planning, we have witnessed the ravages of uncontrolled capitalism, and have also seen the consequences of the profit motive and of the blind forces of supply and demand. If we have to escape from overproduction on the one hand and starvation on the other, and have to avoid waste, planned economy is the only remedy.

Now let us examine the second question. The conditions necessary for successful planning, to my mind, are a National Government, adequate finance, and trained personnels.

A National Government is necessary because only such a Government can inspire enthusiasm. A foreign Government however sympathetic it may be, cannot appeal to the hearts of the people.

The problem of finance is, in my opinion, the more difficult and the more ticklish. Very high hopes are being built on the sterling balances, but I personally feel very very sceptical about them. I have a lurking suspicion that these balances may prove as illusory and unreal as the Atlantic Charter.

The question of personnel does not worry me much. If we have a National Government, we shall not find it difficult to get managers and technicians from abroad; and Russia, I believe, will be prepared to lend us experts to train our people.

As regards the various plans before the country, these are only tentative and can serve as bases for a comprehensive national plan which will have to be prepared by a National Government if and when it comes.

S. Kesava Iyengar :

Prof. S. Kesava Iyengar said that any plan to be sound should take due note of the setting, political, institutional, psychological and social as well as economic. Adequate and reliable data were of fundamental importance, but this had been disregarded as well in the Bombay Plan as by Governments in India. The problem in India, he thought, was not of Full Employment or of the Trade Cycle, but of Secular Stagnation, and therefore first priority should be given to the production of consumption goods in adequate quantities. Finance for planning lay in real resources, and thus local finance was always preferable to foreign finance. He complained against economic planning being in the hands of scientists who did not possess the equipment to use the welfare gear—although they knew the scientific gear. Prof. Iyengar thought that there was great urgency for one or more economic missions from India to countries like the U. S. S. R., Britain and the U. S. A.

The root problem, said Prof. Iyengar, was not the kind of product, but the appropriate assemblage of the available factors of production, and thus to raise capital intensity in Indian production on the British or American model should lead to great harm and wastage. He pointed out that already the first proofs of the fallacies contained in the Industrialisation programme were fast being laid bare. He quoted several British industrialists to show that what Britain really meant was to make use of India for maintaining British Industry, and therefore, the wiser course for India should be to develop first her equipment in regard to food, clothing, houseroom, education and health—*in which process lay great potentialities for social welfare and little room for British intervention.* He further pointed out how the sterling balances had proved a mirage, on which the Bombay Plan had based so much hope. He pointed at the findings of the Platt Mission to the U. S A. to show that anything like Indian competition with Britain or the U. S. A. in industrialisation should lead to a fool's paradise. He concluded by saying that it was tragic to see many Indian legislators yearning for India's development into the Japan of the East in the future—even when Japan was eating the fire of her past economic policy. To set one's own house in order should be the first duty of the planners : economic domination of any sort, internal and external alike, must lead to misery and war, and the sooner the scientists realise this, the better. The physical sciences are a good servant but a bad master.

Principal E. D. Lucas

For a country of the size, variety of conditions and complexity of problems to be found in India, to confine herself largely to national planning, and neglect, or treat as of secondary importance, provincial and local planning would be unwise, not that local planning was not being done, but it seemed to attract far less attention than national plans.

I would therefore confine my further remarks to the Punjab, as after thirty-seven years of nearly continuous residence in Lahore, there is a rich background of experience, and, it is to be hoped, some knowledge.

The Punjab is a martial province and one of her main products is soldiers. In the last thirty-one years we have been involved in world wars for nearly ten of them, and the Punjab in the first war furnished nearly half a million of the million Indian soldiers, and in this war nearly one million of the more than two million Indian soldiers. Most soldiers were from rural areas, so that the cumulative effect of more than one million out of the twenty-five millions of the rural population having participated in modern wars has made the Punjab rural areas more fitted for far-reaching changes—social and economic—than any similar area in India, with the possible exception of Assam. Another point to remember is that while Punjab rural areas use almost no modern machinery, all modern armies are highly mechanized, and therefore hundreds of thousands of Punjabi villagers in future will know at first hand about the outside world, which depends so much on machinery. Probably colonies of ex-soldiers could be gathered into villages where collective or co-operative farming, with modern machinery and the appliances of science as the control and guidance of natural forces could be used. This will be practical politics for the Punjab area, not idealistic planning for a more or less theoretical future.

To come down to a local unit—I have seen Lahore grow from a city of about 220,000 to a city of nearly one million souls. Very little forethought and planning has been put into providing for this new and metropolitan Lahore. The result is that we entered the year 1945 with a primitive sewage system, which must kill its thousands every year, with as much ruthlessness as any German or Japanese foe. It has probably the largest higher educational enrolment of any Indian city, and yet the provision made for these institutions is disgracefully lacking in almost every particular of grounds, buildings, playing-fields and arrangements for health and sanitation. Ugly suburbs

sprawl out in all directions, replacing green fields and gracious trees by evil-smelling, crowded slums. There are schemes for improvement and town-planning by Government, but public opinion against present evils and conditions is very dormant. Either we must go along the Russian road to improvement by means of compulsion and regimentation, or we must at once educate public opinion more continuously and effectively.

Lastly, each Tahsil, that is, a manageably small administrative area, should have a Development Committee at once, which would cost very little, as much of the work done could be secured on a voluntary basis. This Development Board should have as Chairman, if possible, the highest administrative officer—say the Tehsildar—with a paid, whole-time Secretary for the Committee, for, if some one man's whole time is not given to it, the work will not be pushed ahead. For the present there should be a military liaison officer of not less rank than Captain, the Railway and P. W. D. (Roads), Agricultural, Health and Sanitation, Educational, Veterinary, Cooperative and Forest Departments, and the University should all have representatives, making in all about eleven persons, and these would accept about an equal number of public-spirited citizens to constitute the Board. This Board should at once draw up a programme, have monthly meetings to hear reports, make suggestions and get on with projects. Projects might well start with an housing and health programme in a manageably-small area, and then go forward from experience in that work. Such groups, after two or three years of experience, would be of great service to provincial and national Boards.

Dr. Malhotra:

Dr. Malhotra said that he would demur to call the memoranda, outlines and reports about post-war planning that official and non-official effort had brought forth during the last one year or so 'Plans'. For the distinctive character of a plan is that its objectives and means are translatable directly in terms of the aspirations and activities of the common man. If any of the plans so-called is placed before the average worker on the field or in factory, it would not convey a meaning which he could directly

relate to the context of the environment—physical and social—in which he lives. This is because the plans are a kind of superstructure with meagre foundation. They are not based on a large number of estimates of technically possible advance in different regions and sectors. Such estimates would not be available without a series of intensive regional and local surveys. It is of course pointed out with considerable force that the task of planning cannot wait until these surveys have been made but one fails to understand how without such surveys the plans will have much validity or applicability. Another aspect of the plans to which attention may be drawn is the magnitude and sources of finance required for them. The four main sources of finance usually mentioned are sterling balances, foreign borrowing, saving—forced or induced and revenue surpluses of the Government of India. Now as regards sterling balances it is worth consideration whether they should not be left out altogether when examining the post-war plans. It is not yet certain how, when, and in what form these balances will be made available *i.e.*, if they would be made available at all. Moreover, they form in the Bombay Plan as well as in the People's Plan, only five to ten per cent of the total finance required. As regards foreign borrowing, the only creditor country who could help India in this respect is the United States of America. The stipulation made in the Bombay Plan for foreign borrowing is that it should not be accompanied by foreign management. Here the United States of America will have her own say as to whether she is willing to lend on any such terms. Turning to forced or induced saving one may observe that at the outset at any rate the margin available for saving may not be very big and only as planning goes ahead will incomes increase releasing substantial amounts of saving for being plowed back into the execution of the plans. Too much fuss has unfortunately been made about the dangers of created money as there has been a tendency to overlook that in a fully controlled economy, created money loses much of its menace. The second report of the Government of India on Reconstruction Planning has mentioned revenue surpluses of 500 crores of rupees accruing during a period of five years and becoming available for financing the post-war plans. So many conditions have, however, been mentioned for these revenue surpluses to arise, such as orderly demobilization, full employment etc. that one may legitimately wonder if one can rely on them in the context of planning. As the post-war plans largely hinge on finance it is necessary to make sure that we do not set about making the bricks of plans without the proverbial straw of finance.

A. D. Mazumdar:

As the war is drawing near its end, there has been in the air quite a crop of plans for economic development of India. The most famous, perhaps, is the Bombay Plan. The next is the Government of India's Plan. The third is the so-called "People's Plan" drawn up by the Radical Democratic Party. Finally, I believe, the Communist Party of India must have a plan of its own, at least it can, at short notice even, provide one.

I submit, sir, I challenge the basic principles of all these plans. As the time at my disposal is very limited, I can only state my plan in bare outlines and leave out all arguments.

What is the meaning of a plan for the economic development of India? It means the exploitation of the natural resources and the existing capital equipments of India in a way that will produce the maximum amount of utilities with the minimum expenditure of labour.

The first thing that crops up in my mind in this connection is that there is nothing called "India" or an "Indian People". All the other plans I have enumerated above believe in, and assume, such a unity or identity. I do not.

I shall not speak of "Hindu India", "Muslim India" "Princes' India" and so on. In fact these are only sub-divisions of a greater and more fundamental identity, namely the "Bhadralog" India which stands in sharp contrast with another identity, namely the "Chhotolog" India.

All the plans I have known so far are "Bhadralog" plans. The conflicts among the various "Bhadralog" plans are reflections of the quarrel among different groups of "Bhadralogs" of the same as well of different countries over the spoils of exploitation of the "Chhotolog" classes of all countries.

The Bombay Plan, for instance, is one actuated by the interests of the Indian business community. The Government of India Plan is one actuated by the interests of the "British Bhadralogs" who are holding supreme political power over India and are therefore in supreme control of all her economic resources. The Radical Democrat's "People's Plan" is, I believe, actuated by the interests of a flock of men around a one-time Revolutionary who now craves for power and position within the frame-work of an imperialist-colonial administration. And the "Communist" plan, if any, is actuated by the Russian ruling class' propaganda and plans.

I do not say that the sponsors of the above plans have no interest in the welfare of the "Chhotolog" (or toiling) masses of India, but that interest is only one like that of the owner of a flock of sheep and cattle in the safety and wellbeing of the animals in his possession.

The "Chhotolog" plan of economic development of India is, to my mind, very simple. As I do not know of any plan that can reconcile the real interests of the toiling as well as the exploiting non-toiling classes, I set forth the outlines of a real toiling Peoples' plan.

The first thing is, there must not be any owner of land except the tiller. This will mean that crores upon crores of rupees that annually go to the landlords and landed intermediaries will go into the hands of the tillers.

The second thing is that all money and other forms of accumulated wealth, namely factories, railways and mines etc. will cease to belong to share-holders and other owners of the "Bhadralog" class. The dividends that annually go to swell the earnings of a handful of businessmen and their "Bhadralog" employees will, in that case, automatically pass into the hands of the workers in the shape of enhanced wages.

Thirdly, the crores of rupees that are annually collected from the people of the country by way of direct or indirect taxes by the state must not be spent away in fat salaries to administrators. I suggest that the highest salary of the skilled administrator including the head of the state shall not be much more than the average earning of a skilled workman under the new situation. That is, the Governor-General of India must not get more than Rs. 200 p. m. or thereabouts. This will mean that crores upon crores will be saved for financing economic projects, or for relieving the burden of taxation.

You can very well imagine that a plan of this kind, if effected, will automatically solve the problem of markets, of trade competition, of tariffs, and so on and so forth. If and when effected all over the world, this will also eliminate political warfare. The only problem of economic progress that will remain, will be that of technocracy. Man, and every toiling man for that, will enjoy the fruits of his labour to the extent that he knows to harness the forces of nature for his own benefit.

M. C. Munshi:

He began by saying that he did not desire to establish a thesis, but was content to raise a few questions which he felt required elucidation. There was at the first instance a great deal of loose talk about planning. Even in the course of the debate, he was afraid, post-war planning and the economy in the transition period were taken to be the same problem. There was not only a distinction to be drawn between these two parts of our economy; but that much of the so-called plans lacked a fundamental requirement. He, therefore, emphasised that instead of panic planning that was so much in the air, there was need for laying down the objectives of any plan that would be laid down. There would be no successful planning without envisaging the ends that plan had in view. Turning to the transition period, he wondered whether those who talked of the continuance of the controls sufficiently realised that the incentives of the economic controls after the war would have to be entirely different from those that operated during the course of the war. It was here that the machinery of the State would have to play the greatest part. In this connection it was also necessary to remember that the operation of the controls during the transition period would be very largely determined by the success that these controls had met during the war. It was not sufficiently recognised that the economy of the transition period would very largely depend upon the manner in which the war economy of the country had been managed and that a country which had not managed its war economy well would find it extremely difficult to tide over the transition period. It was therefore necessary while thinking of the transition period to first settle our house in order while the war lasted and then lay down any scheme of economic controls for the successful operation of the transition period economy.

S. K. Rudra:

In the matter of post-war planning, there were three important problems that are of special concern to me, which I desire to express before the Conference for finding a solution.

The first problem is that while in the ultimate analysis, the majority of post-war schemes were provided for the rural

areas, were those going to be imposed upon the rural population in a mechanical fashion, with all the various Departments descending upon the village. I am of view that if post-war planning is to prove successful, then it must take the peasant mind into consideration. The peasant mind is not a blank mind. The peasant mind is a thoroughly realistic mind. It is also a highly suspicious mind. It can also become an obstinate mind. The success, therefore, of the schemes depended greatly on the nature of the reception that will be given to these schemes by this peasant mind. It is therefore essential that the peasant must have confidence in the schemes and particularly in those who implement the schemes. The peasant therefore examines the organization or the individual that brings the schemes to him. The problem is where is the organization or the friend whom he trusts ? I am not in a position to develop this idea any further, as it would lead me into fields that are beyond the range of economic consideration as such.

I may here allude that this aspect of the receptibility of the population was given very careful consideration by the Tennessee Valley Authority in U. S. A. before they embarked upon their scheme of regional reconstruction.

The next important matter that was causing me constant perplexity was the method in which we were going to implement the problem of post-war reconstruction. Was the method that we were going to adopt the bureaucratic method or the democratic method ? I am of view that if we want to make the best of the situation and the resources at our command, it would be highly desirable to enunciate the policies on a democratic basis, but to arrange for their execution on a bureaucratic system. The combination of the two methods would give to our post-war planning the greatest chance of survival, and the maximum efficiency possible under present circumstances.

The third and the final point that occasions me very grave concern, not merely in respect to India, but in respect to all international post-war reconstruction planning was, whether these plans were really looking forward to a transition from War to Peace, or from war to war, with a brief interlude of peace ? I myself have at times grave misgivings of the international position.

V. Sundararajan :

Dr. Adiseshiah rightly said that we must be clear as to what planning means. It would be well if the term is dropped from current economic phraseology. A proper plan should be designed to meet the real needs of the people. Agriculture which provides livelihood for the majority of the population in India forms the mainstay of India's economic life. As the late H. H. Sir Sayajirao, Maharaja of Baroda said:

"There can be no industrial advance in India unless the material conditions of the millions of agriculturists and workers in the country is improved. For it is their purchasing power that determines in a large measure the demand for the output of factories. Industrialisation should therefore actively support all programmes for the rebuilding of rural life in all its many sides. This would only be enlightened self-interest on their part." A contented and prosperous peasantry should form the backbone of Indian body politic.

A scheme for economic advance in India, if it should be successful, should instil into the minds of the masses the feeling that it is aimed not at the promotion of the interests of a particular class say, the industrialists, but their own interests. The apathy of the masses is generally recognised. As Prof. Rudra pointed out the danger is that there may be opposition on the part of the peasants. The remedy for this, in my view, is education in the broad sense of the term.

R. Visweswar Rao :

Prof. R. Visweswar Rao speaking on the problem of plans for the economic development of India observed that any plan to be successful must be based upon the real living conditions of the people. And that all sectors must be planned since planning is the process of a complete economic integration of the entire life of the country in which all aspects of economic life are judiciously co-operated. He emphasized the need for appreciating the role of cottage industries in our national economy. Referring to the Bombay Plan, he was of the opinion that since the publication of the plan, high hopes have begun to be set regarding the economic future of India. He observed that agriculture must be developed along with industries and hoped that the planners would consider the problem of distribution in the second part of their Report. Referring to the slogan "industrialize or perish" he warned that indus-

rialization alone cannot be the panacea of the existing economic ills of the country, and that industrial expansion cannot proceed ahead because of the narrow purchasing power left in the hands of our rural population. According to him, hands must have precedence over the machines and that if human welfare is the criterion and if increased industrialization only leads to more unemployment, then it is no good. Referring to the Gandhian Plan, he observed that it is based upon the living conditions of the people and gave a tribute to Mahatma Gandhi who, he said, is the greatest living economist of the country. In conclusion, he stated that we cannot imitate the west and copy their plans without considering our peculiar economic problems.

ANNUAL GENERAL MEETING OF THE INDIAN ECONOMIC ASSOCIATION

TWENTY-SEVENTH CONFERENCE, DELHI UNIVERSITY

The Annual General Meeting of the Indian Economic Association was held in the Delhi University Buildings on the 31st December 1944, at 2-30 P. M.

Present :

Dr. L. K. Hyder, University Professor of Economics, Aligarh, *President*.

1. Prof. S. V. Ayyar.
2. Dr. E. D. Lucas.
3. Prof. H. Ghosh.
4. Prof. S. Kesava Iyengar.
5. Prof, R. Visweswar Rao.
6. Prof. M. H. Vaswani.
7. Dr. M. S. Nataranjan.
8. Prof. J. Guleri.
9. Prof. J. K. Khemchandani.
10. Mr. Raghotham Reddy.
11. Prof. Radha Kamal Mukherji.
12. Mr. V. G. Sahasrebude.
13. Prof. C. N. Vakil.
14. Prof. S. K. Rudra.
15. Mr. A. N. Agarwala.
16. Prof. B. P. Adarkar.
17. Mr. M. C. Munshi.
18. Prof. C. Marathe.
19. Mr. A. S. Banavalikar.
20. Mr. S. P. Jain.
21. Prof. A. B. Ghosh.
22. Prof. D. K. Malhotra.
23. Dr. Tara Chand Jain.
24. Mr. Y. D. Sharma.
25. Mr. A. Datta Majumdar.
26. Mr. P. N. Segal.
27. Prof. R. Balakrishna.
28. Dr. S. Ganapati Rao.
29. Prof. J. J. Anjaria.
30. Mr. V. R. Pillai.
31. Dr. M. S. Adiseshiah.
32. Prof. L. N. Thacker.
33. Prof. M. Abdul Qadir.
34. Prof. N. K. Bhojwani.
35. Prof. R. K. Bhan.
36. Prin. D. G. Karve.
37. Mr. N. V. Sovani.
38. Prof. S. Misra.
39. Prof. S. V. Kogekar.
40. Prof. N. R. Deshpande
41. Dr. A. I. Qureshi.
42. Mr. Md. Shaghil.
43. Dr. B. N. Ganguli.
44. Mr. Bhagat Singh Sodhi.
45. Prof. M. L. Qureshi.
46. Mr. M. Hassan.
47. Prof. P. C. Malhotra.
48. Dr. Muranjan.
49. Dr. Gyan Chand.
50. Prof. J. P. Niyogi.
51. Prof. J. C. Sinha.
52. Prof. S. K. Bose.
53. Ms. H. Acharya.
54. Prof. S. A. Samad.
55. Mr. K. N. Bhattacharya.
56. Prof. Prem Chand.
57. Dr. V. K. R. V. Rao.

I. The minutes of the last annual general meeting held at Madras were confirmed.

II. The report of Hony. Secretary and Treasurer and the audited statement of accounts for the year ending 31st May 1944 were considered and approved.

III. The following subjects were selected for discussion at the next conference :—

(*a*) The Indian Food Problem.

(*b*) Post-war currency system in India.

(*c*) Post-war Transport Problems with special reference to Rates Policy.

IV. Principal D. G. Karve of Poona was unanimously elected as President of the Association for the year 1945-46.

Dr. V. K. R. V. Rao's name was proposed for the post of Secretary and Treasurer, but on his requesting the Association not to extend his term of office, the Association unanimously elected Prof. A. I. Qureshi of the Osmania University as Secretary and Treasurer for 1945-46.

Prof. Radha Kamal Mukherji was unanimously elected as the Hony. Local Secretary for the next Conference.

The following persons were elected to be members of the Executive Committee :—

1. Prof. Gyan Chand, Patna University.
2. Prof. D. R. Gadgil, Poona.
3. Dr. H. L. Dey, Dacca University.
4. Prof. S. K. Rudra, Allahabad University.
5. Dr. L. C. Jain, Punjab University.
6. Dr. B. V. Narayanaswami Naidu, Madras.
7. Dr. L. K. Hyder, Aligarh University.
8. Dr. V. K. R. V. Rao, Delhi University.
9. Prof. C. N. Vakil, Bombay University.
10. Prof. R. N. Poduval, Annamalai University.
11. Prof. J. P. Niyogi, Calcutta University.
12. Dr. P. S. Lokanathan, Delhi.

V. It was resolved that the Hony. Auditor, Mr. S. V. Vaidyanatha Aiyar, B. A., G. D. A., R. A., be thanked for his kindness in auditing the accounts of the Association for the year 1943-44.

VI. It was resolved that the President be authorised to appoint the Hony. Auditor for the next year in consultation with the Secretary.

VII. The following gentlemen were elected to represent the Association on the Board of the Journal :—

1. Prof. V. L. D'Souza.
2. Prof. J. J. Anjaria.
3. Dr. B. N. Ganguli.
4. Dr. B. K. Madan.

VIII. It was resolved that the invitation of the Lucknow University to hold the next session of the Conference at Lucknow be accepted with thanks, and that the next session be held at Lucknow under the auspices of the University of Lucknow.

IX. It was resolved that the suggestions made by Prof. M. K. Ghosh regarding University syllabuses of Commerce and Statistics be taken up for consideration at the next meeting of the Association.

X. A vote of thanks was passed to the Delhi University, the organisers of the Conference and the retiring office-bearers of the Association.

V. K. R. V. RAO,
Hony. Secretary.

L. K. HYDER,
President.

REPORT OF THE INDIAN ECONOMIC ASSOCIATION FOR THE YEAR ENDING 31ST MAY, 1944.

The number of members on 31st May, 1944 was 165 as compared with 164 last year. During the year the Association received a donation of Rs. 100/- from Mr. M. G. Lakshminarsu of Deccan Engineering Co., Hyderabad.

The financial position of the Association has shown an improvement over that of last year. The cash balance on 31st May, 1944 was Rs. 4,120-13-2 compared with Rs. 3,861-6-11 last year and in addition to this balance, the Association has got a credit balance of Rs. 317-14-8 with the Journal of Indian Economics.

The thanks of the Association are due to Mr. S. Vaidyanatha Aiyar, B.A., G.D.A., R.A., for auditing the accounts of the year under report.

Though 25 new members were enrolled in 1943-44, the membership of the Association has not shown any net increase. I feel that this should be rectified and a vigorous drive undertaken for enlarging the membership in the near future. It is also time that the Association got a permanent habitation and a substantial endowment fund which will assure it a stable income with which it can maintain a small office. Everybody is now talking and planning for a place in the sun; and I think that our Association should also plan for itself an assured place in the post-war Indian world. I am greatly indebted to the President and Members of the Executive Committee for their help and co-operation. I am also thankful to the members of Association and the Managing Editor of the Journal for the sympathetic consideration I have received from them throughout the year.

V. K. R. V. RAO,
Honorary Secretary and Treasurer.

15th December, 1944.
Delhi University, Delhi.

Receipts and payments account

RECEIPTS

To Opening Balance :						
Fixed Deposit with B. P. C. Limited, Bombay ...	1,256	11	9			
Current Account with Central Bank of India, Delhi	2,604	11	2	3,861	6	11
To Interest Receipts :—						
Interest on Fixed Deposit with B. P. C. Limited, Bombay				21	14	3
Subscriptions from 165 Members at Rs. 12/- ...	1,980	0	0			
Additional amount paid by 1 member ...	4	9	0			
	1,984	9	0			
Add :—Two members paid in Advance ...	24	0	0	2,008	9	0
To Miscellaneous :—						
Donations	100	0	0			
Profit for the year 1942-43	232	7	4	332	7	4
Rs. ...				6,224	5	6

Examined and found correct.

Delhi, Kashmere Gate,

14th December, 1944.

MIC ASSOCIATION

for the year ended 31st May, 1944.

PAYMENTS

By	Department of Economics University of Allahabad; for 125 Members at Rs. 9/- each and 40 members at Rs. 8/- each	1,445	0	0			
„	Bills of the Department:						
	Bill No. 964 for Printing	525	8	6			
	Bill No. 965 for Printing	99	0	0			
„	Miscellaneous; (Miscellaneous Bills) ...	7	3	0			
„	Refund of Rs. 39/- being the difference between the credit balance shown by the Economic Association and Journal last year	39	0	0			
		2,115	11	6			
	Less: Last Year's credit balance ...	370	2	10			
		1,745	8	8			
	Add:—Credit balance for the year ...	317	14	8	2,063	7	4
„	Postage (including telegrams)	3	0	0			
„	Bank Charges	2	8	0			
„	Printing Charges	27	0	0			
„	Miscellaneous (Paste, Railway Parcel paid)...	7	9	0	40	1	0
„	**Closing Balances**:—						
	Fixed Deposit with B. P. C. Limited, Bombay	1,278	10	0			
	Current Account with Central Bank of India	2,842	3	2	4,120	13	2
	Rs. ...				6,224	5	6

V. K. R. V. RAO,

Hon. Secretary and Treasurer.

INDIAN JOURNAL OF ECONOMICS

ORGAN OF THE INDIAN ECONOMIC ASSOCIATION

VOLUME XXV

GENERAL ARTICLES

REVIEWS

INDEX

TO

VOLUME XXV

INDIAN JOURNAL OF ECONOMICS

PROCEEDINGS OF 27TH INDIAN ECONOMIC CONFERENCE

Indian Journal of Economics

(Established in 1916)

Objects

The *Indian Journal of Economics* was founded by Professor H. Stanley Jevons in 1916 with the three-fold object of providing a medium for the publication of articles on Indian Economics by authors of academic standing or authoritative position ; furnishing a convenient vehicle of publication for original investigations ; and disseminating information about the economic activities of other countries. Its scope has been generally extended since then so as to cover every branch of economic science.

Contributions

The Managing Editor will be glad to receive articles with a view to publication in the Journal. Articles published elsewhere will not be accepted. All manuscripts submitted should preferably be type-written and a copy should be kept as the Managing Editor, although he will make every endeavour to return rejected manuscripts, cannot undertake responsibility therefor. The whole of the contents of this Journal is copyright, and permission must be obtained in writing for the quotation or paraphrasing of more than 500 words from any one article. Every quotation must contain an acknowledgement of its source.

Subscription and Despatch

The Journal appears quarterly in July, October, January and April. The subscription year commences from July and ends with April issue. Subscribers are requested to bear this in mind so that they might be able to subscribe the Journal volumeswise. ***The subscription, inland as well as foreign, is strictly payable in advance.*** The annual subscription is Rs. 12 net but the subscribers who wish to have the Journal sent to them per registered post should send Re. 1 more, ***i.e.***, Rs. 13 per volume. Ordinarily the issues are despatched through ordinary post under Certificate of Posting, and no responsibility is taken regarding safe transmission and delivery. No duplicate copies are supplied gratis.

Publications of University Teachers and Research Scholars, Economics Department, University of the Punjab, Lahore

By Dr. L. C. Jain, (University Professor of Economics):

1. Indian Economy during the War, Lahore. 1944.
   "This highly provocative volume on topical subject provides stimulating reading and deserves careful perusal by every nationalist and Indian economist. Dr. Jain is not anything if not critical. His arrangement of data is commendable and his criticism illuminating."
   —*The Amrita Bazar Patrika, Calcutta.*
2. Indigenous Banking in India, Macmillan & Co., London, 1929.
   "*It fills a distinct gap in Monetary Literature*"—Lord Keynes.
3. The Monetary Problems of India, Macmillan & Co., London, 1933.
   "*............The best book on Indian Monetary Problems ever written by an Indian,*"—The Economist, London.
4. Reserve Bank for India, Lahore, 1933.
5. Report on the Effect on Ceylon of Textile Quotas and Preference Duties, Ceylon Government, Colombo, 1940.
6. Working of Protective Tariffs in India, Delhi University, 1941.

By Dr. D. K. Malhotra, (University Lecturer in Economics):

1. History and Problems of Indian Currency. 1935—1939, Minerva, Lahore, Second Revised Edition, 1944.
   "*Discussion of latest phases is characterised by clearness of exposition and an effort to weigh conflicting views and arguments...............The linking of the rupee to sterling, gold exports, sales of silver and ratio controversy are subjects which have been ably handled.*"—Prof. V. G. Kale, in "The Bombay Chronicle."
2. Tenancy Reform in India, Lahore, 1941.
3. Review of Indian Fiscal Policy, Lahore, 1943.

By Dr. B. K. Madan :

1. India and Imperial Preference, Oxford University Press, 1939.
   "*His book is reassuring evidence that India has at her command the services of economists who can render valuable help in advising on the way in which she should adjust herself to a new, and let us hope, better world*"—Sir F. Noyce (in the Economic Journal).
2. Some Aspects of Rural Economy in the Punjab, 1935.
3. Notes on the Sales of Gold in the Punjab, 1937.

By J. G. Narang :

Constituent Assembly—our National Demand.
"*I did feel it was a job competently done deserving commendation*"—Jawahar Lal Nehru.

By L. K. Sahgal :

A Survey of the Marketing of Cotton in the Punjab, 1938.
"*A model of practical research*"—Prof. Brij Narain.

OFFICE-BEARERS OF THE

Indian Economic Association

For the year 1945

President : Principal D. G. Karve, Poona.

Secretary : Dr. A. I. Qureshi, Osmania University.

Members of the Executive Committee

Prof. Gyan Chand, Patna University.
Prof. D. R. Gadgil, Poona.
Dr. H. L. Dey, Dacca University.
Prof. S. K. Rudra, Allahabad University.
Dr. L. C. Jain, Punjab University.
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Prof. C. N. Vakil, Bombay University.
Prof. R. N. Poduval, Annamalai University.
Prof. J. P. Niyogi, Calcutta University.
Dr. P. S. Lokanathan, Delhi.

Membership

The Indian Economic Association was founded in 1918 with the object of general advancement of economic knowledge. The membership of the Association is open to teachers and students of Economics and to such other persons as are interested in Economics in general or in special economic problems, if duly elected.

There is at present no entrance fee. The annual subscription payable by members is Rs. 12. This entitles members to attend all meetings and the Annual Conference of the Association and also to receive all issues of the Indian Journal of Economics for the year (1st June to 31st May).

INDIAN JOURNAL OF ECONOMICS

The Indian Journal of Economics—the organ of the Indian Economic Association—appears quarterly in January, April, July and October. The April issue is the Special Conference Number and contains all the papers read at and proceedings of the Annual Conference of the Association. Members of the Association receive the Journal free.

Applications for membership and further particulars may be obtained from the Hony. Secretary & Treasurer : Dr. A. I. Qureshi, Osmania University, Hyderabad—Deccan.